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PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)

SUMMARY REPORT



PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)

Summary report of the project 'Privatisation of Public Services and the Impact on Quality, Employment and Productivity' (PIQUE)

Download version

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1. INTRODUCTION

This report is a summary and integration of the research findings of the European Research project PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE).¹ The project lasted from 2006 to 2009 and was funded under the European Commission's 6th Framework Programme. Research was conducted in six public service sectors - electricity, postal services, local public transport and health services/hospitals - and four countries - Austria, Belgium, Germany, Poland, Sweden and the United Kingdom. The report summarises the main results from a series of larger reports produced during the project's lifetime and thereby reflects the different phases and workpackages of the project. The chapters are based on a series of policy papers that were produced to inform policy makers and stakeholders about the project's main research findings. Accordingly, it is written to be accessible for an audience that goes beyond academic circles. The detailed reports that the Policy Papers are based on are also available and can be downloaded from the project website).

The report starts with a chapter summarising the results of a study on liberalisation and privatisation processes and forms of regulation in the four sectors and six countries investigated. Based on a series of company case studies, the next chapter analyses how companies react to liberalisation and privatisation. The following sections deal with the impact of privatisation and liberalisation processes on labour relations as well as on employment and productivity. This is followed by a chapter on the results of a representative survey on users' perceptions. The report is complemented by a chapter integrating the various findings and drawing overall conclusions as well as a section outlining policy recommendations.

The PIQUE project was carried out by a consortium of six partners. The project was co-ordinated by

- Forschungs- und Beratungsstelle Arbeitswelt (FORBA) in Vienna, Austria.

Further partners included

- Working Lives Research Institute (WLRI) at London Metropolitan University, UK
- Higher Institute for Labour Studies (HIVA) and Public Management Institute of the Catholic University of Leuven, Belgium
- Institute of Sociology, Warsaw University, Poland
- Institute for Economic and Social Research (WSI), Hans-Böckler Foundation, Germany
- Department of Work Science, Göteborg University, Sweden.

During the three years of the project's duration a large number of researchers contributed to the research carried out in the project and made the project an ultimate success. Among them are Monica Andersson-Bäck, Nils Böhlke, Torsten

¹ Project contract number: CIT5-2006-028478

Brandt, Laura Coppin, Kathrin Drews, Jörg Flecker, Jesper Hamark, Christoph Hermann, Ines Hofbauer, Steve Jefferys, Yilmaz Kilicaslan, Thomas Lindner, Wieslawa Kozek, Julia Kubisa, Justine Sys, Ulrike Papouschek, Anna Paraskevopoulou, Richard Pond, Beata Radzka, Justine Sys, Ali Cevat Tasiran, Christer Thörnqvist, Thomas Vael, Sem Vandekerckhove, Steven Van Roosbroek, Guy Van Gyes and Koen Verhoest.

As important for the success was an effective and smooth project organisation overseen by Christine Wagner of FORBA, as well as the consistent support of Dominik Sobczak, the project's Scientific Officer at the European Commission.

The project has received unexpected attention and input from stakeholders and policy makers. We are particular grateful to the participants of the four PIQUE workshops carried out in order to discuss project results and policy recommendations (in Brussels, Berlin, Leuven and Warsaw) and to the participants of the final project conference in Vienna. We hope that this report will help them to pursue their tasks.

We would also like to take the opportunity to thank all the people who allowed us to interview them for the company case studies and the users' survey which formed an important part of the project. We would also like to thank all those who established contacts with interviewees and provided useful background information on different sectors and industries, as well as the survey institutes who carried out the telephone survey.

For more information on the project and to download the detailed project reports please visit <http://www.pique.at>

Vienna, May 2009

Christoph Hermann & Jörg Flecker

2. RESEARCH QUESTIONS AND METHODOLOGY

While during the post-war decades public services were mainly provided by the state, recent decades have seen a wave of liberalisation and privatisation of public services in the European Union. So far, evaluations of these processes have largely focussed on price development and, in some cases, on the compliance of privatisation with specific quality standards. These assessments rarely took into account the impact of liberalisation and privatisation on employment and productivity in a cross-country and cross-sector perspective. The PIQUE project has attempted to close this gap by investigating the relationship between employment, productivity and the quality of public services in the process of liberalisation and privatisation. The project's main hypothesis is that decent employment and working conditions impact positively on productivity and service quality while the provision of decent employment and working conditions depends on the regulation of liberalisation and privatisation processes and the resulting market and ownership structures.

To test this hypothesis the project has pursued a number of research objectives:

- A description and analysis of liberalisation and privatisation processes, changes in market and ownership structures and forms of regulation
- An assessment of the impact of liberalisation and privatisation on the quantity and quality of employment, on the development of productivity and on public service labour relations
- An understanding of how companies respond to liberalisation and privatisation; what are main strategies and organisational reforms, and what are the consequences for employment and working conditions as well as productivity and service quality
- An exploration of the perspective of public-service users, including users' perception of liberalisation, privatisation, competition and choice, perceptions of quality and the role of public service obligations.

Research was conducted in four sectors - electricity, postal services, local public transport and health services/hospitals - and six European countries - Austria, Belgium, Germany, Poland, Sweden and the United Kingdom. Both sectors and countries have been selected because they represent a wide variety of sector- and country-specific peculiarities and the challenges typical of the liberalisation and privatisation of public services across Europe. To tackle the research questions, the project used a broad variety of methods in the different workpackages, including quantitative as well as qualitative methods.

For the production of a series of reports on changing ownership and market structures as well as forms of regulation in the countries and sectors covered by the project the partners reviewed existing literature and reports, analysed documents and occasionally conducted expert interviews when information was otherwise not accessible. To analyse and compare the information, a series of multidimensional graphs were developed summarising the changes in ownership status of the

incumbent, ownership status of all providers, number of providers and market concentration. The same information was also presented in tables on the development of ownership and market structures. Due to a lack of exact and comparable data for specific sectors and countries, classifications were based on estimations of the national research teams. Research on the impact on industrial relations operated with similar methods, including reviews of existing literature and reports, and additional expert interviews. Here, too, information from the national reports was compiled in comparative tables.

A series of case studies was conducted to analyse the impact of liberalisation and privatisation at the company level and to better understand the consequences for work, employment and service quality. Case studies are empirical inquiries that investigate contemporary phenomena within their real-life context (Yin 2003) and which focus on understanding the dynamics present within single settings (Eisenhardt 1989). Both the processes and the consequences of liberalisation are rather complex, and the boundaries between phenomenon and context are not clearly evident. Therefore, case studies using different sources of evidence and in particular qualitative research methods were expected to be the appropriate research approach to gain novel insights. The research on company responses to liberalisation and privatisation was based on a total of 23 company case studies: Six case studies from the electricity sector, eight from postal services (five incumbents and three competitors), five from the hospital sector and four from local public transport.

The case studies themselves are based on a total of about 185 qualitative interviews conducted with managers, work council and trade union representatives and workers. The number of interviews per case study ranges between eight and 14 interviews. Exceptions are the three case studies with new competitors in the post sector which were initially not foreseen in the work plan and therefore are based on fewer interviews. The method of the problem-centred interview was used. Common guidelines had been developed for three different categories of interview partners (management, works council representative or trade unionist and workers). The interviews were conducted in 2007 and 2008. In two case studies – Austrian General Mail and British Londondrive – management declined to take part in the research. While in the case of General Mail management's perspective was accounted for through interviews with two ex-managers, the findings of the Londondrive case study are solely based on interviews with trade union and works council informants and workers. In addition to interviews the case study material included academic literature, press coverage of the companies, company documents, and company internet presentations. All case studies have been anonymised even though it is sometimes impossible to conceal the identity of the case study company. This is obviously the case in sectors where there had been only one monopoly provider before liberalisation and privatisation such as in postal services.

The workpackages dealing with consequences on employment and productivity were primarily based on the secondary analysis of existing data. In the case of employment comparable EU wide data were used as well as national data if available stretching from 1995 to 2005. Data referred to the following NACE codes: 401 (Electricity), 641 (Post and courier activities), 6021 to 6023 (Other scheduled passenger land transport;

taxi operation; other land passenger transport), 85 (Health and Social Work) as well as 8511 (hospital activities). Eurostat data was taken from the Structural Business Statistics (SBS), national data from the Labour Force Survey (LFS) and other sources. For Austria and Germany LFS data was used, for Belgium data from the Data Warehouse Social Security, for Sweden data from Register Based Labour Market Statistics, for Poland data from the Central Statistical Office (Employment in National Economy) and for the UK from the Annual Business Inquiry.

Productivity data was taken from the EC-funded EUKLEMS project (<http://www.euklems.net>). The data is standardised and for some categories stretches back to 1970 (for Poland figures in most categories are only available from the mid-1990s). However, this data was only available for broader sectors such as electricity and gas (in some cases electricity, gas and water where data goes back further), post and telecommunication, inland transport, and health and social services. Nevertheless, results still provide some indication of significant changes in productivity that can be linked to liberalisation, privatisation and marketisation processes. Furthermore, the focus of the project was on major changes in productivity, not just short-term fluctuations, and these are more likely to be apparent even in the data for these broader sectors, unless there are specific countervailing tendencies operating in other sub-sectors within the industry. Productivity trends were compared with respect to other sectors in the same country as well as the same sectors in different countries. The analysis was complemented by a decomposition of productivity trends (increase in value added or a decrease in hours worked).

Research on users' attitudes towards liberalisation and privatisation was based on a representative telephone survey conducted in the winter of 2007-2008. The sample population included all private persons aged between 18 and 79 living in a private household in one of the included countries; with furthermore a land-line telephone number and the capability to express themselves in the (country) language of the questionnaire. An additional pre-survey representativeness measure consisted of quotas. These were assigned according to gender, age, education, and urban-rural area. As a result, in each country at least 1,000 respondents were interviewed based on this random sampling. In the questionnaire, questions were asked about the general satisfaction with quality and price; the impact of liberalisation and if/how the specific service has to be provided in a universal way. Another extensive battery of questions assessed customer satisfaction with particular public services in more detail. The respondents were asked to rate their satisfaction with the quality performance of individual service dimensions. This quality satisfaction part was complemented by questions on recently experienced quality problems. In a final part, questions were asked about the evolution in price and quality.

2.1. References

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3. VARIETIES AND VARIATIONS OF PUBLIC SERVICE LIBERALISATION AND PRIVATISATION

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This chapter is based on the synthesis report on 24 sector studies on liberalisation and privatisation processes and forms of regulation for the sectors of electricity, postal services, local public transport and healthcare/hospitals in the six countries involved in the project.

3.1. Processes of liberalisation and privatisation

Liberalisation and privatisation can be expected to have profoundly altered the structure of public-service sectors in Europe and new regulations imposed by European sector directives must have created pressure for Member States to converge to a common model of governing the now liberalised public service markets and companies. If we look at the four sectors covered in the PIQUE Project - electricity, postal services, local public transport and health care - there are certainly strong indicators for change and for convergence, but similarly striking are the continuous differences both in the structure as well as in the regulation of public services in the six countries included in our comparison - Austria, Belgium, Germany, Sweden, Poland and the UK.

Differences already emerge if we look at the timeframe of the liberalisation and privatisation processes. In several sectors the timeframe reaches from the late 1980s to the present (an exception in this regard are postal services where liberalisation did not start before the early 1990s). In three out of the four sectors, the UK was the country where liberalisation started first, often coupled with privatisation. This may not surprise given the legacy of the Thatcher government, which profoundly changed Britain in the early 1980s. Interestingly, however, the UK was often followed by Sweden, where a conservative government ruling the country from 1991 to 1994 initiated a number of radical public-sector reforms. As a result, the UK and Sweden were typically ahead of the liberalisation time frame set by the respective European Directives (in those sectors where such Directives were adopted). Poland also experienced an early process of liberalisation due to political change in the late 1980s and the shift from a planned to a market economy. However, in Poland liberalisation and privatisation processes evolved rather slowly lagging behind rather than preceding the respective EU regulation.

In the remaining three countries - Austria, Belgium and Germany - liberalisation processes were mostly induced externally and followed more or less the time frame set by the European Union starting in the late 1990s, with reforms in electricity and

postal services, with the important qualification that all three countries forged ahead in partly privatising their national postal companies after 2000. Interestingly, in the two sectors without an EU Directive establishing a common liberalisation roadmap, local public transport and health care, the situation was not so much different. Here, too, the UK and Sweden were running ahead of the other countries, although the reform of the Swedish health-care sector was much less radical than in the UK and Germany. In the remaining four countries, liberalisation and privatisation processes in local public transport and health care started comparably late and they are far from being completed. In the case of health care, furthermore, changes are better described as economisation, as in most countries there is hardly any competition between hospitals and only in one country was privatisation carried out systematically and at a substantial level.

3.2. Towards more competitive market structures?

Liberalisation aims at building competitive market structures, in which many providers compete with each other on an integrated and easily accessible market. Competitive market structures imply low levels of market concentration, since providers with large market shares have the possibility to build up entry barriers for new competitors by manipulating prices and the quality of services. Although in several sectors a formal liberalisation process has been initiated or completed, the evolution towards highly competitive market structures has not or only very partially been achieved in most sectors and countries studied. As liberalisation is intended to enhance competition, one might expect an increase in the number of providers in the newly liberalised public-service sectors. This is certainly the case in countries and sectors where there was only one provider before liberalisation. But experience shows that this is not necessarily the case, for in the other sectors liberalisation had mixed effects.

A decrease in the number of companies is particularly noticeable in sectors and countries in which regional or local monopolies were prevalent. In electricity generation, for example, the conversion of regional to national markets has led to a reduction of the number of suppliers in some countries as larger companies have bought up their smaller competitors (and the number can be expected to fall further if the objective of creating a European-wide market is ever to be met).² In Germany there are now four instead of eight major generating companies. As a result of these concentration processes, the number of network transmission and distribution operators has also decreased. Even the number of companies active in supply has declined, as 200 municipal companies have disappeared from the market. In Belgium the country's largest electricity corporation also took over the retail business of some of the municipalities with which it previously had formed joint public-private companies. In Sweden, too, a number of local electricity companies, which had

² For some countries, statistics may show an increase in the number of generating companies but this is mainly the result of an increase in small eco-electricity producers. As these can only survive due to heavy subsidies they are not considered here as relevant competitors.

previously cooperated with state-owned Vattenfallsverket in regional 'clubs', were taken over by large foreign-owned corporations, which entered the market after liberalisation. In Sweden and the UK, furthermore, the number of bus companies providing local public transport has also decreased as a result of liberalisation, while in Austria and Germany the large number of companies in this sector is the result of the reluctance to increase competition.

In other sectors and market segments, liberalisation led to an increase in the number of providers. As mentioned above, in Poland and the UK this was not difficult given the fact that there was only one provider before liberalisation. But Poland stands out as it has an unusual large number of suppliers in electricity generation and several hundred independent companies have obtained a licence for electricity trading (yet there are signs that Poland is in the middle of a consolidation process which will end with a significantly reduced number of providers). Since liberalisation, there are also large numbers of providers in parcels and express services although it is sometimes not clear if they are independent companies or self-employed deliverers. The number of companies in the letter market has also increased, mostly in the sub-markets, direct mail and newspaper delivery, but to a much lesser extent than in the parcels and express mail market. In fact, so far only a few meaningful competitors have emerged to challenge the position of the former monopoly suppliers.

Even in those sectors where the number of providers has grown, this has not automatically resulted in strongly competitive market structures. Instead, in several cases although the total number of companies has increased the largest companies were at the same time able to expand their market shares in the newly liberalised markets. This was the case in electricity in Germany and Sweden, while in Austria and Belgium there were already high degrees of market concentration before liberalisation. Even in Poland and the UK, market concentration in the electricity industry is considerable. Out of the 70 British companies in the supply segment, six have a market share of more than five per cent and the three largest firms supply almost 65 per cent of electricity consumed in the UK. In the letter market, concentration has decreased but only for a few per cent. The new competitors account for between seven per cent of the market in Sweden and Germany, four per cent in the UK, two per cent in Austria and Belgium and only one per cent in Poland. Even in package and express services, the number of companies with significant market shares is limited. Instead, many of the new companies are national branches of large international express mail services.

Sweden and the UK have also experienced strong concentration processes in local public transport. In Sweden there are nine major bus companies left, while in Britain there are six, with three of them controlling more than 50 per cent of the market (whereas in Germany there are more than 2,000 and in Austria more than 500 independent providers in local public transport). An interesting finding in this connection is also that the number of companies may first increase as a result of liberalisation, but with the growth of competition smaller companies are taken over by larger ones. This is precisely the experience in local public transport in Sweden.

On a much smaller scale, concentration processes can also be seen in local public transport in Germany and Poland, whereas in Austria and Belgium concentration in regional transport has always been rather high. In sum, even if liberalisation has led to the abolition of national or regional monopolies - the exception is local public transport in Belgium where there are still regional monopolies - the resulting market structures are typically characterised by very high or rather high degrees of market concentration. Hence what often happened was a shift from regional monopolies to national oligopolies.

The number of providers and their market shares, i.e. the degree of market concentration, is only one indicator of the intensity of competition in newly liberalised public service markets. Further elements that impact on competitive market structures include the number of markets and the kind of competition - competition for or in the market - as well as the extension of customer choice.³ Taking into account all these elements, we developed a map of the evolution towards more competitive market structures in the countries and sectors included in this analysis. The results are presented in Table 3.1.

Table 3.1: Evolution towards more competitive market structures (2006)

	Austria	Belgium	Germany	Poland	Sweden	UK
Postal services: letter and direct mail market	Limited	Limited	Rather limited (fully open from 2008 onwards)	Very limited	Moderate	Rather limited
Electricity	Limited	Very limited	Limited (abolition of regional monopolies but concentration of main producers)	Moderate	Moderate (high share of spot-market trading)	Strong in generation; moderate in supply
Local public transport	Limited	Very limited	Rather limited	Limited	Strong but decreasing because of more market concentration	Strong but decreasing because of more market concentration
Hospitals	Limited	Limited	Moderate	Limited	Very limited	Very limited

Source: PIQUE sector reports. Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more detail, see the country reports for each sector. Available to download from www.pique.at.

³ Competition in the market describes a situation where two or more companies compete for markets shares, whereas competition for the market means that two or more companies compete for an exclusive although temporary access to the market. The latter frequently takes the form of competitive tendering and is relatively common in local public transport.

According to the countries and sectors covered in the PIQUE project only a few sectors show a clear shift towards highly competitive market structures. As can be seen in Table 3.1, Poland and the UK have highly competitive markets in electricity and the UK and Sweden in local public transport. Moderate progress towards more competitive markets was made in Sweden, the UK and Germany in postal services, in Germany and Poland in local public transport and in Sweden in electricity, but progress was rather limited, limited or very limited in the remaining sectors including all three sectors in Austria and Belgium, postal services except for Sweden and the hospital sector except for Germany.

3.3. Towards more private ownership structures?

Public services are usually associated with public ownership. In reality, however, ownership structures are much more diverse, including public and private companies, and in the health-care sector even private not for profit providers. Privatisation entails a shift of ownership from public to private asset holders. Given the diverse ownership structures before liberalisation, it should not be surprising that privatisation rarely entailed a shift from an entirely publicly owned to an entirely privately owned sector. In fact, the UK was the only country in our sample that partly followed this rather extreme path. In electricity and local public transport, all providers are now in private hands, while the Royal Mail is still a hundred per cent publicly owned and the hospital sector is also still largely in public hands, even if some of the new hospital buildings are legally owned by private investors. More frequently, instead, liberalisation entailed a shift from a full or predominantly public to a predominantly private ownership structure on the market.

Examples are the electricity sector and local public transport in Sweden, letter mail in Germany and in several countries the parcel and express mail services. Furthermore, a number of countries have experimented with hospital privatisation, but only in Germany was this policy applied systematically. The standard mail services in five of the six countries are still predominantly publicly owned (the exception is Germany where the majority shares of the incumbent has been sold to private investors), as is local public transport in four countries (exceptions are Sweden and the UK) and electricity in two countries (Austria and Poland). Austria and Poland are the only countries where public companies still play a dominant role in all four sectors, while in the other four countries at least two sectors are predominantly in public hands. Even in the privatisation-prone UK, postal services and hospitals are still mostly publicly owned.

Privatisation does not always have to include a full transfer of ownership rights. In a number of cases, instead, publicly owned companies have only been partly privatised, with the state maintaining a majority or minority share of the assets. This can take the form of selling ownership rights to a strategic partner, e.g. a foreign company active in the same sector or business segment, or through offering company shares on the stock market. While the British government typically divested public companies in initial public offerings, transferring all company shares to private

investors, other countries were much more cautious. In Austria and Poland the federal or regional governments have still considerable stakes in partly privatised electricity companies. In Austria, existing legislation forbids the federal government to liquidate its majority share in the country's largest electricity generator, the Verbund Gesellschaft. In the postal sector, only Germany has sold a majority share of the former monopoly provider, Deutsche Post, while in Austria and Belgium the state has retained half of the stakes and a majority of the voting rights in the post incumbents.

In addition to part privatisations, ownership can also be shared between the public and private sector in joint ventures or public private partnerships. Such joint ownership can be found in electricity distribution in Belgium, where the leading private electricity company until recently operated local distribution networks in cooperation with municipalities (resulting in joint public-private companies), or in local public transport in Germany, where some communities have invited the private sector to invest in their municipal transport operators.

Independently of the ownership structure, liberalisation has caused a systematic shift in the legal form of public-service companies. While previously part of the public administration and then autonomous public companies, most of them have been converted into private-law companies (either as a holding, a joint-stock-company or a limited-liability corporation).

Table 3.2 summarises changes in ownership structure in terms of market shares. A clear shift from a predominantly public to a predominantly private ownership structure took place in the UK and Sweden in electricity and local public transport and in Germany in postal services and the hospital sector. Furthermore, a substantial increase can be found in postal services in Austria and Belgium and in electricity in Austria, Germany, Poland and Sweden. In Belgium there was also a moderate increase in private ownership in the hospital sector but this is limited to the growing share of private not-for-profit hospitals. In most of the remaining sectors, there was an increase in private ownership but with a limited effect on overall ownership structures.

Table 3.2: Evolution towards a dominant private-ownership structure in four sectors (2006)

	Austria	Belgium	Germany	Poland	Sweden	UK
Postal services (letter market)	Predominantly public **	Predominantly public **	Predominantly private (incumbent sold)	Predominantly public	Predominantly public	Predominantly public
	<i>Substantial increase</i>	<i>Substantial increase</i>	Strong increase	Marginal increase	Limited increase	Limited increase
Electricity	Predominantly public	Predominantly private	Predominantly private	Predominantly public	Predominantly private	Predominantly private
	Substantial increase	Moderate increase	Substantial increase (conversion of Eastern Germany)	Substantial increase	Substantial increase	Very strong increase
Local public transport	Predominantly public	Predominantly public	Predominantly public	Predominantly public	Predominantly private	Fully private
	Limited increase	Very limited increase	Moderate increase	Limited increase	Strong increase	Very strong increase
Hospitals	Predominantly public*	Predominantly private*	Public equals private*	Predominantly public	Predominantly public	Predominantly public
	Limited increase	Moderate increase	Strong increase	Limited increase	Very limited increase	Limited increase

* Large or dominant share of non profit private hospitals

** 49% of incumbent in private hands

Source: PIQUE sector reports. Due to a lack of exact and comparable data for specific sectors and countries, classifications are based on estimations of the national research teams. For more details, see the country reports for each sector. Available to download from www.pique.at.

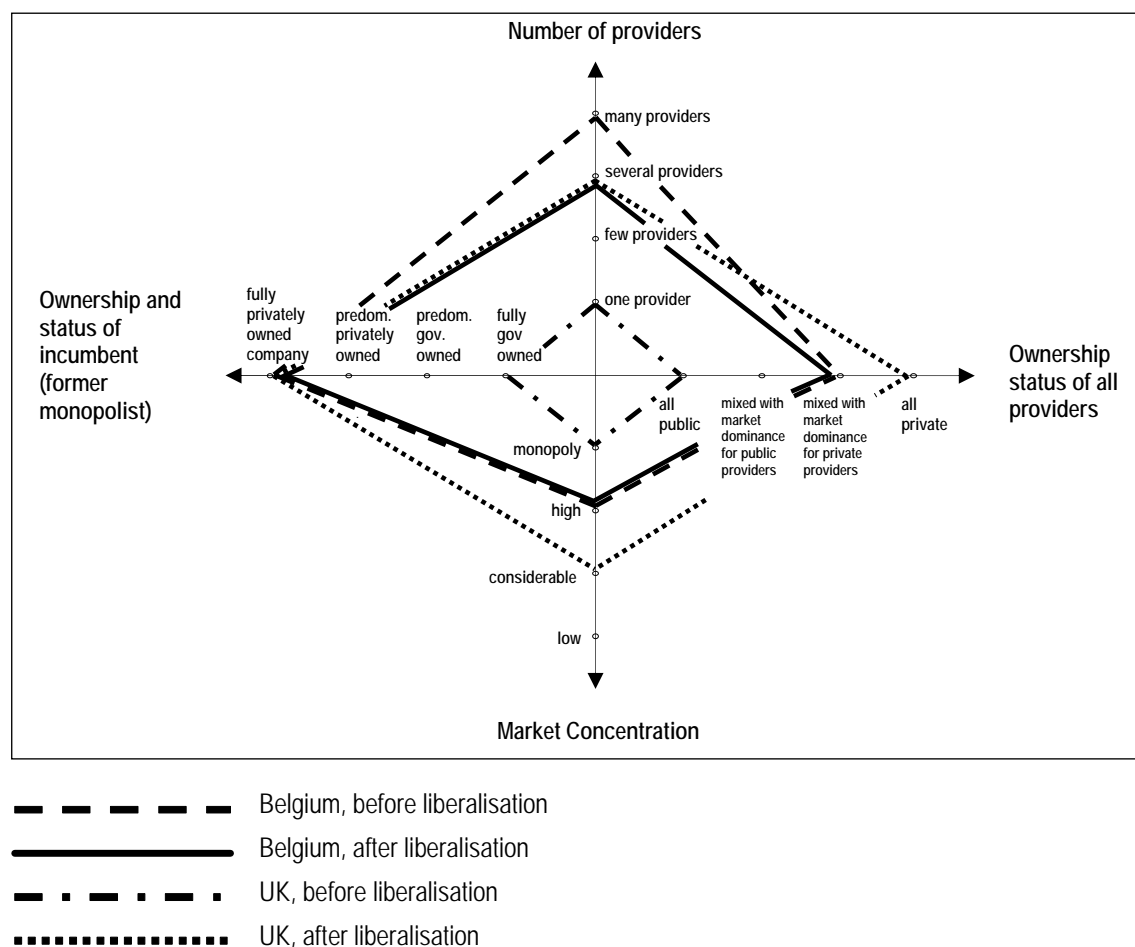
3.3.1. Privatisation instead of liberalisation?

Comparing market and ownership structures (Table 3.1 and Table 3.2) it becomes clear that there is no straightforward causal relationship between private ownership and market concentration. Instead we can find high degrees of market concentration in predominantly publicly owned sectors such as local public transport in Austria and in predominantly privately owned sectors such as electricity in Belgium. In fact it is hard to detect any general patterns that could explain the differences. What can nevertheless be concluded from the rather complex picture is that in the two cases in which we had a predominantly private ownership structure before liberalisation - electricity in Belgium and Germany - market concentration has further accelerated. Conversely, in the two countries with nationalised electricity industries before liberalisation - Poland and the UK - the authorities were more successful in restraining private capital interests.⁴ Another important finding is that the

⁴ In a recent European Commission Staff Working Document accompanying the legislative package on the internal market for electricity and gas (SEC (2007) 1179) the Commission assumes ownership unbundling is the main reason that explains the different market structures in the European Union. Countries with ownership unbundling, according to this conclusion, have lower market concentration and hence more intense competition in their electricity markets. Yet the evidence given by the

liberalisation processes in European public services were more successful with regard to changing ownership structures than creating competitive market structures. Whereas five out of the 24 sectors included in our sample have seen a strong or very strong increase in private ownership until 2006, only three sectors have shown a strong evolution towards competitive market structures.

Figure 3.1: Electricity sectors Belgium and the UK before and after liberalisation



The figure illustrates how the UK shifted from a state-owned monopoly to a fairly competitive market with several providers all privately owned. Belgium always had a

Commission to support this assumption is rather weak. The Commission randomly selects eight countries with legal unbundling and compares them to ten countries with ownership unbundling. It furthermore takes the market share of the largest company as indicator. This already shows that in seven out of the ten countries with legal unbundling the largest company still accounts for more than 50 per cent of the market. If it were to take the market share of the three largest companies, the picture would change insofar as in number of countries with ownership unbundling market concentration would also reach more than 80 or 90 per cent. Yet the table also shows that Poland and Sweden stand out as the countries with the lowest market concentration.

predominantly private ownership structure and a high market concentration, while the number of providers actually decreased.

3.4. Forms of regulation

Liberalisation and privatisation was often promoted and always accompanied by major changes in the regulatory systems (in the case of Swedish post, the regulatory framework was actually reformed after the introduction of competition). While before liberalisation public ownership was the dominant form of regulation in most countries and sectors, liberalisation and privatisation processes have amplified differences in the regulatory regimes. In very general terms, the focus of regulation has shifted from governing the whole process of service provision to regulating particular aspects of the service supply chain or to partially controlling outcome. General trends also include the establishment of formally independent regulatory authorities with varying degrees of autonomy and powers to discipline or coordinate market participants, the granting of licences and the signing of contracts. In addition, there are a number of new instruments that are applied more specifically in one or two sectors included in our sample. One of these is the universal service obligation.

3.4.1. From state ownership to enabling competition

The electricity sector is a case in point. Regulation no longer includes planning and investment, and end-consumer prices are now freely set by the electricity suppliers, except for Belgium and Poland where electricity companies are partly still subject to planning and price control. Instead, the focus of regulation has been narrowed to the transmission and distribution segment of the electricity supply chain. Here, new regulations introduced by the two European electricity directives, which were transposed into national law, first called for the functional and then legal unbundling of the network systems from other supply-chain activities. While functional unbundling required the network operators to establish independent accounting systems for their network operations, legal unbundling means that network operations are carried out by a legally independent company, which nevertheless can be owned by a parent company with business activities in generation and supply. Unbundling is important for the authorities to determine the costs of operating the networks, which may otherwise be used by the network operators to cross-subsidise their other business activities (which again may disadvantage competitors in generation or supply).

After unbundling, the transmission and distribution operators were required to grant access to competing firms. In most countries, the terms of access were regulated by the newly established regulatory bodies. Only Germany, which initially asked its network operators only for functional unbundling, opted for the possibility to find a solution based on negotiations between the parties involved. Meanwhile Germany has also introduced legal unbundling and regulated third-party access. In two countries in our sample (Sweden and UK) the transmission-network operators have not only been

legally unbundled, but they are also owned by independent companies, and in the Swedish case the independent operator is state-owned (whereas in the remaining three countries transmission networks are run by electricity companies that are either active in generation or in sale or in both). Ownership unbundling did not take place in distribution. Distribution-network operators with few exceptions are also active in other supply-chain segments.

Part of regulating third-party access is the establishment of network tariffs. This is increasingly done ex-ante instead of ex-post. The reason is that, by giving the network operators the possibility to save the difference between the projected and the real costs, the new regulation creates specific incentives to reduce production costs (exceptions are Belgium, which has maintained an ex-post assessment process, and Germany, which is expected to switch to an ex-ante system by 2008). Hence while wholesale and retail prices are increasingly determined by supply and demand - obstacles in this regard include the continuous dominance of long-term contracts between generating and supplying companies - network tariffs are still subjected to strong and increasingly sophisticated regulation. This has not happened by coincidence. Instead, the regulation of terms and conditions of third-party access to transmission and distribution networks, including the establishment of network tariffs, is seen as crucial to enable competition in the areas of generation and supply.

Yet the ability to enhance competition greatly depends on the regulatory powers of the responsible institutions, which in the new regulatory regime are the newly created electricity regulators. In this respect there are substantial differences between the six countries under investigation. While the British regulator Ofgem has repeatedly imposed large fines on electricity companies for uncompetitive behaviour, the Austrian regulator has problems receiving the necessary information from the market participants and the fines it can impose on infringing companies are rather insignificant.

3.4.2. Universal service obligation

Postal services have also experienced the creation of new semi-independent regulatory authorities but in most cases with less regulatory powers and a closer relationship with the responsible governmental departments. Only the British regulator, Postcom, has made itself a name for imposing a fine on the incumbent, the Royal Mail, for uncompetitive behaviour, and only the German regulator has put strong pressure on the former monopoly provider to lower prices in the reserved area. The Austrian regulator, in contrast, willingly approved the incumbent's application to raise prices for standard mail. Most countries in our sample have some form of price control for letters - only the Polish Poczta Polska is free to set its own prices while they must somehow relate to real costs - but the procedures vary considerably. Austria, Germany and the UK have switched to ex-ante price regulation, while in Belgium and Sweden providers are allowed to increase prices in

line with the growth of the consumer price index, with the Belgium incumbent being allowed to add a small supplement.

In Belgium, Germany, Sweden and the UK the regulator has also the responsibility for regulating access to the incumbent's internal services by competing companies (e.g. letter sorting), but the most important task is to specify and control the universal service obligation. Belgian electricity companies are subject to a number of public-service obligations and the regional transport operator in Flanders is required to meet a number of minimum standards such as minimum frequency of services and maximum distances between bus stops, but in our sample it is only in postal services that the establishment of a universal service obligation is part of the European sector directive and therefore mandatory in all countries. The universal service obligation is imposed by legislation or as a specific postal licence held by the universal service provider. Belgium again stands out, as here the universal service obligation is part of a management contract between La Poste/De Post and the Belgian government.

The objective of the universal service obligation is to make sure that all citizens have "easy access" to postal services. First Postal Directive lists a number of general principles but leaves it to the member states to define the scope of the universal service obligation. In four out of the six countries the universal service obligation includes detailed provisions on the number and distribution of postal outlets. Austria and Sweden lack such specifications but in both countries the universal service providers need approval by the government or the regulator if they want to close a post office. However, the detailed provisions have not prevented the former monopoly providers, which in all countries are responsible for the fulfilment of the universal service obligation, from closing down a substantial part of their post-office networks. In Austria and Germany the universal service providers have shut down about 40 per cent of their post offices in recent years, while the Swedish incumbent has outsourced the respective services to private sector partners. Of the 2,475 postal outlets in Sweden, only 436 are still run by Posten AB.

3.4.3. Licences and contracts

While the universal service obligations impose a rather detailed control regime, companies outside the universal service are free to offer postal services at their own terms and prices. So far only the former monopoly suppliers are subject to the general service obligation while the new competitors in letter markets usually have licences (the exception here is Austria where new companies only have to submit a document in which they explain how they intend to establish deposit facilities and arrange redress and complaint procedures). Licences are also issued in the electricity sector and here especially for providers in the supply markets, whereas generators and transmission- and distribution-network operators have to meet a number of technical standards to receive a permit for operating their facilities.

In the electricity and postal sectors, licences are typically granted on a permanent basis. In local public transport, in contrast, liberalisation has led to a shift from

permanent to temporary licences and contracts. Exceptions are the UK, where bus companies outside London have permanent non-exclusive licences and are free to choose the routes they want to operate. Permanent exclusive licences until recently have existed in Austria and Germany but, following the 2005 Communication of the European Commission on the Regulation of Public Passenger Transport, exclusive-licences for bus services must be renewed after eight years. At the same time, the transport authorities, which since the mid 1980s have been set up in Austria, Germany and Sweden to coordinate different means of transport and different transport providers in a particular region, have started to put temporary contracts for particular routes or bundles of routes out to tender.

Yet while in Sweden a radical shift to the tendering system was put into practice in the second half of the 1980s – Sweden is therefore often considered as role model for the other countries – in Austria and Germany some areas and routes have been subject to tendering procedures while others are still served by companies with route-specific licences. The result is a mixed system with a long-term tendency towards competitive tendering. In Germany authorities have even started to put regional railway services out to tender. Apart from Sweden, Greater London, with about 7.5 million inhabitants, has also introduced a city-wide tendering system in which Transport London puts individual routes out to tender with competing private bus companies.

Making the cheapest bid is ultimately the most important reason for being awarded a contract, but quality issues like the technical equipment and general condition of the bus fleet and the experience of drivers also play a role. In some cases, past performance is also taken into consideration by transport authorities when awarding new contracts, but tendering must be in line with public procurement legislation. One consequence of the shift to a tendering regime is that efforts to control outcome have greatly increased.

In Belgium, contracts also play a crucial role in regulating local public transport. Yet in contrast to the above contracts, these are not put out to tender. Instead, they are management contracts concluded between the regional governments and the regional transport providers. As such, the regional governments give the regional operators exclusive access to the transport markets in their respective areas. On the other hand, management contracts impose a number of duties on the contractors, including the above-mentioned survey on passenger satisfaction. Yet while the regional providers enjoy exclusive access to the regional transport markets, they themselves use competitive tendering to outsource parts of the services to private bus companies.

Tendering and outsourcing have also become increasingly important instruments in the regulation of the hospital sector. Yet while in the UK an independent health-care regulator has been established, health care differs from the other three sectors included in this analysis insofar as regulation in health care has remained comprehensive, including a large number of technical and professional standards. Most changes in the regulatory framework have taken place in the financing of

hospitals rather than in the provision of treatments - although changes in financing of course had an impact on care provision.

There are three major trends that can be observed in one or the other form in the six countries under investigation. First, the share of private health-care funding has increased through the growing share of private health insurance and the introduction of co-payments, which can be understood as specific form of user-fee. Secondly, due to the growing split between health-care funding and provision, funding organisations are increasingly acting as purchasers, amplifying pressure on hospitals to deliver services at the lowest possible costs. In this respect the introduction of flat-rate reimbursement rates for operations which are paid by the funding organisations independently of the real costs of the treatments (so-called DRG systems) has created special incentives to release patients as quickly as possible from the hospitals. Hospitals responded to these developments by creating internal markets with prices attached to the various treatments, which are then charged to other departments or divisions in the same hospital.

3.5. Conclusions

With liberalisation the objective of regulation shifted from overseeing the process of service provision to enabling competition. In certain market segments the loss of regulatory oversight has been compensated for by increasing efforts to control outcome. More often, however, outcome is left to the 'free play' of market forces. One example is electricity prices which in most countries are now determined by market forces rather than government intervention. This is problematic insofar as our analysis has shown that, in terms of the creation of highly competitive market structures, the outcome of liberalisation and privatisation was rather modest to say the least. In the absence of comprehensive regulation and competitive markets, the companies have gained freedom to set prices and service quality at their own discretion. This is the more problematic as liberalisation was actually much more successful in changing ownership structures and in expanding the share of private ownership.

While there is a universal service obligation in the postal sector the other three sectors included in our analysis lack such a commitment. Perhaps these sectors for historic reasons have not a countrywide provider that can make sure that all citizens have access to the respective service, but as public service providers they could nevertheless be legally required to maintain a minimum amount and quality of services easily accessible for citizens in a particular region or locality. The Belgian (regional) government(s) imposes such requirements to service providers through a number of public service obligations. Even local public transport is regulated in this way in the Flemish region, mainly because social and environmental policy objectives. However, rather than leaving it to the Member States to make sure that citizens have access to affordable high-quality public services, the European Union should consider making public service obligations an overarching principle of its

liberalisation policies. For this matter, a directive that clarifies the nature and role of public services in Europe would certainly be helpful.

Because the liberalisation process was only modestly successful with respect to enhancing competition, it bears certain risks to leave service provision only to the market. Instead of focusing on particular aspects of the supply chain, regulation should cover various aspects of service provision in order to make sure that services are easily accessible, affordable and of high quality and they will remain in this state for future generations (which requires a minimum amount of investments). If the liberalisation process is to be taken further, member states should not only aim for a more balanced regulation, but they should grant their regulatory bodies sufficient power to enforce compliance to such regulatory norms and standards, including the power to sanction non-compliers and incumbents. However, such strong regulatory bodies both need sufficient mutual coordination as well as sound accountability arrangements.

4. HOW COMPANIES REACT TO THE LIBERALISATION AND PRIVATISATION OF PUBLIC SERVICES

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What strategies do companies adopt in view of liberalisation? What restructuring processes are triggered by changes in market regulation and ownership? How is employment, how are working conditions changing and what are the impacts on service quality? A series of 23 company case studies in four sectors and six countries was carried out within the PIQUE project to answer these and related questions.

In this chapter, we summarise the main findings of the company case studies, which focused on service providers in the electricity and local public transport sectors, in postal services and in hospitals in Austria, Belgium, Germany, Poland, Sweden and the UK (for details see Flecker et al. 2008). Cases-study companies include former monopoly providers and new competitors, fully or partly publicly owned companies operating in liberalised markets as well as old and new private providers. The case studies themselves are based on a total of about 185 qualitative interviews conducted with managers, works-council and trade-union representatives as well as workers. The information gathered from the interviews and additional sources results in a complex picture of company reactions to the introduction of competition and the expansion of private ownership in public-service markets, or, as in health services, the marketisation of service provision. We summarise the findings in terms of company strategies and organisational change, employment, industrial relations and human-resource management as well as work organisation, working conditions, productivity and service quality.

Table 4.1: Overview of case study sample

Electricity	6 case studies	3 in Belgium 1 each in Austria, Poland and the United Kingdom; 1 municipal provider which is still 100% publicly owned, the other majoritarian foreign and private owned as part of European energy multinationals
Postal Services	7 case studies	4 former monopolists (Austria, Belgium, Germany, Poland, Sweden) and 3 new competitors (Austria, Germany, Sweden)
Local Public Transport	4 case studies	2 municipal transport companies (Germany, Sweden), 2 privatised bus companies (Poland, United Kingdom)
Hospitals	5 case studies	1 public hospital (United Kingdom), 2 private not for profit hospitals (Belgium, Austria) and 2 privatised hospitals (Germany, Sweden)

4.1. Company strategies and organisational change

4.1.1. Mergers, acquisitions, privatisation, internationalisation and diversification

With liberalisation, markets were gradually opened to competition. While in electricity all customers can now choose between two or more providers, in postal services the former monopolists still enjoy a limited monopoly (for mail weighing 50 grams or less) in Austria, Belgium and Poland (whereas postal markets in Germany, Sweden and the UK are fully liberalised). In local public transport the situation is different, as here corporations mostly do not compete for customers but for several-year service contracts. In the hospital sector, too, hospitals only compete for patients under exceptional circumstances. Yet hospitals are increasingly subjected to economisation processes brought about by changes in funding schemes and stagnating or only slowly growing public budgets. Regardless of the duration and intensity of the liberalisation process, overall market changes in the liberalised public-service sectors in which the case-study companies operate have been limited. Exceptions include parcel and express services in the postal-service sector as well as the German letter market, where a new competitor challenged the position of the former monopolist but has meanwhile run into serious economic difficulties. Even in Sweden, where the postal market was fully liberalised more than 15 years ago, the former monopolist still holds more than 90 per cent of the letter market. Liberalisation, in general, seems to only rarely lead to a competitive market (Hermann/Verhoest 2008).

While market changes were limited, public-service companies frequently changed ownership through privatisation and mergers and acquisitions. This is partly reflected in the sample of case-study companies. In the electricity sector, all but one of the companies covered by the case-study analysis have changed ownership and, as a result, all but one are now predominantly foreign owned. If the ongoing merger between the Danish and the Swedish post office is successful, only one out of four incumbent postal-service providers included in the analysis will still be fully publicly owned. While the examples from the electricity and postal sectors can be generalised due to the limited number of companies in these sectors, in local public transport and the hospital sector generalisations are more problematic. However, both sectors saw a shift from public to private ownership.

Two of the case-study companies in local public transport were privatised as management and employee buy-outs, with one of them later purchased by a foreign-based multinational. In the hospital sector, where hospitals are confronted with increasing financial pressures, two hospitals were privatised, one of which is now owned by a foreign investor, the other by a national private hospital chain with overseas investments. The other two hospitals were part of a merger or integrated into a larger hospital group.

Apart from mergers and acquisitions, which in the extreme case lead to the creation of national and increasingly even European public-service oligopolies, the former

monopoly providers have responded to liberalisation by internationalisation, i.e. investing outside their home markets, and by diversification, i.e. investing in related business activities. The two strategies are particularly prevalent in the electricity market and in postal services. One of the postal companies included in the sample prides itself on being the world's leading logistics and postal-services company and raises a large part of its revenue outside its home market. The new competitors in postal services are also frequently foreign owned and several of them combine mail delivery with the delivery of newspapers. Electricity companies often diversify their business by combining the provision of electricity with the provision of natural gas.

4.1.2. Price policy and cost pressure

Another set of measures introduced by public-service companies in liberalised markets centres on the relationship between the company and its customers. Companies in liberalised public-service markets have allocated increasing resources to advertising and the improvement of customer relations. However, while the role and scope of call centre services has been greatly extended, other forms of customer contact, such as walk-in customer-service centres, have been cut back if not altogether eliminated. Some of the case-study companies in the electricity sector have resorted to new and rather aggressive sales techniques and one company has been fined for trying to persuade customers to change suppliers. In addition to investing in advertising and introducing new sales techniques, public-service companies have also responded to market challenges by advancing customer differentiation. Large customers can negotiate specific terms of service delivery, including individual prices, while small customers are treated according to general standards and charged standard tariffs. As a result, large customers may benefit from price reductions, while small customers have more than once suffered from price increases after liberalisation and privatisation. Customer differentiation is less important in local public transport and hospitals.

While electricity and postal-service customers can choose between different providers - and the price of the respective service certainly plays an important role in these decisions - in local public transport and the hospital sectors price competition plays only a marginal role if any. Providers in these sectors have very limited influence on prices. Prices are set by transport or health authorities. However, in both sectors there is competition in the sense that providers attempt to undercut competitors when competing for bids in public tenders or in the case of hospitals by pushing costs for individual treatments below the lump-sum rates paid by the funding organisations.

Regardless of the market situation and the nature and degree of competition, all case-study companies report growing cost pressure from the market, the regulator, the funding authority, or, as several trade union and works-council representatives have emphasised, the profit interests of the new private shareholders. And despite the fact that some companies have still managed to increase prices in liberalised public-service markets, all of them have responded to liberalisation and privatisation

by cutting costs. This has mainly been done on three levels: investment in cost-saving technology, reorganisation (concentration and outsourcing) and the reduction of labour costs by means of staff cuts, lower wages and increasing workloads.

4.1.3. Organisational changes

In addition to changing their legal forms and becoming private-law companies, most companies introduced far-reaching organisational changes after liberalisation and privatisation. Some of them were driven by the implementation of new technology, others by regulatory requirements and again others by the objective of cutting costs. As a result, there are two major tendencies that in one form or another have affected most of the case-study companies: the concentration of structures and activities and the outsourcing of certain parts or functions either by contracting with external suppliers or by setting up independent subsidiaries. The latter is particular widespread in the electricity industry, where the regulator has required providers to set up independent business units for generation, distribution and supply.

Several electricity companies, as a result, have set up independent sales departments and call centres, while one company was virtually split into two equal parts. In a similar way, municipalities have responded to legal concerns about the funding of municipal transport systems by converting parts of the service into independent companies (e.g. bus service). The result was the creation of sometimes rather complicated business structures with cross-shareholding among various actors. In postal services, it is the new competitors that often rely on extensive networks of subsidiaries and partners in order to reach into areas where they do not have their own delivery network. In Germany, a major competitor of the incumbent postal company was in fact made up by a total of 91 independent firms.

As we will describe in the following section, organisational changes not only responded to regulatory needs; instead companies have deliberately exploited new regulations in order to escape 'expensive' public-sector collective agreements under the pretext of growing competition. In fact, reorganisation was to a large extent driven by the search for lower labour costs. Apart from creating independent subsidiaries, companies have also outsourced service functions to external contractors that can provide the service cheaper than the company could do with its own staff. As we will describe in the following section, the splitting up of companies, the creation of independent subsidiaries and outsourcing has created frictions within a previously rather homogeneous public-sector workforce and significantly increased administrative work (documentation, reporting, etc.).

In electricity, construction work and services such as metering have been outsourced. In the case of a new competitor on the Belgian retail market, virtually all activities are outsourced except for management and a core administrative unit. In postal services, former monopoly providers have outsourced transport between sorting and distribution centres to private haulage companies and, in several cases, at least parts of their post office network. The most extreme case is Sweden, where the incumbent

has outsourced most of its retailing tasks to supermarkets, petrol stations and convenience stores, while it continues to operate a small number of 'post stores' mainly for banking transactions. According to a report by the German postal regulator, Deutsche Post used more than 1,800 subcontractors in 2005, including taxi drivers commissioned to empty letter boxes. For the incumbent postal-service monopolist in Austria, outsourcing was not so much introduced to save costs - the impact on costs is in fact debatable - but to increase pressure on the core workforce. In hospitals, too, a large variety of activities and functions have been outsourced to external providers reaching from cleaning and catering services to building maintenance and IT. The picture is similar for local public transport, with outsourcing mainly concerning services such as cleaning, security, catering, ticket inspection and the operation of vending machines. Public-service providers thus adopt widespread restructuring practices as many services have been outsourced in the private sector and in public administration.

While outsourcing is still an important trend in public-service companies, some service providers have also started to insource activities. Examples include the electricity case-study companies in the UK and Austria and the Belgian hospital. While the British electricity provider brought services back in because contractors frequently did not live up to the standards expected by the company and management feared that the loss of skills for tasks performed by contractors would have negative long-term consequences, in Austria management reduced the number of external contractors because it needed to keep its non-sackable workforce busy. The Belgian hospital included in the case-study sample insourced services such as cleaning and catering. Reasons included economies of scale, which could be exploited after the merger and the cooperation with a public (re)employment programme that provided subsidised workers for these services.

Of course, outsourcing and the creation of independent subsidiaries can be seen as a form of decentralisation, but decentralisation as a deliberate strategy to reduce costs was pursued only in a few cases, including a German hospital where it was linked to extensive benchmarking by management. More often, public-service companies have responded to liberalisation by centralisation and concentration. As mentioned above, several electricity companies have closed down walk-in service centres and instead concentrated customer relations services in centrally operated call centres. In order to increase efficiency, postal companies have dramatically cut the number of sorting and distribution centres. In Germany, of the 700 sorting centres that existed before liberalisation only 59 are left; in Austria the number was reduced from 36 to six, while the number of distribution bases was cut from 1,880 to 320. In both countries, furthermore, the number of post outlets has been reduced by about 40 per cent since the start of the liberalisation process. In the hospital sector, concentrations mainly take the form of hospitals being merged or integrated into a large hospital group or departments spread out over a number of buildings being centralised in one large facility.

Concentration processes were partly linked to a reduction of hierarchical structures. Several companies have introduced 'flatter' hierarchies, with the result that individual managers assume more and direct responsibility. The new competitors in particular tend to have less penetrating hierarchical structures combined with new and less bureaucratic working cultures. However, while hierarchical structures have become 'flatter' and permeable, at the same time public-service companies have stepped up control efforts through the introduction of new IT-based control and reporting systems. The introduction of new technology played a major role in the restructuring of public-service providers. This is not only true for electricity, where it changed billing and administration and the way companies interact with their customers, and post services, where IT is used to reorganise delivery routes and to track parcels and registered mail. The introduction of IT has also changed the organisation of hospitals: the introduction of digital patient files in the German case-study hospital, for example, has changed administrative work and led to a reorganisation of the administrative system.

4.2. Employment, industrial relations and HRM

4.2.1. Employment

The objective of reducing costs has often had a major impact on employment. Instead of improving efficiency by expanding the amount of output with a constant labour force, public-service providers in liberalised markets cut back on their staff numbers (Jefferys et al. 2008). Changes in employment levels vary according to sector and country. In electricity and in postal services, considerable job losses occurred at the incumbent monopolists, often combined with changes in employment status and forms of contract, while newly established competitors by definition gained employment. Of course, the overall net employment effects can only be assessed at macro level, but the case studies confirm that in electricity and postal services outsourcing to other sectors and the creation of new jobs by new competitors can hardly account for the job losses recorded by the former monopoly suppliers - especially if calculated on a full-time basis.

In the *electricity sector*, the case studies reported employment reductions of between 25 and 50 per cent since privatisation or since the mid-1990s. In spite of the enormous scale of job losses, compulsory layoffs were avoided. 'Downsizing' was achieved through non-replacement of retirees, voluntary redundancy packages and early retirement. In electricity, employment was reduced in generation, maintenance and administration whereas employment expanded in trading, retailing, controlling and IT. This resulted in a shift from blue-collar to white-collar employment. Qualitative employment changes also include a move from civil-servant to private-sector employee status in the British case and the frequent use of temporary workers in the Belgian case. Job cuts led to frequent overtime for the remaining workforce in the electricity industry in the British and in the Belgian cases. While in the UK this can also be attributed to the parallel reduction of working hours

from 39 to 37 hours per week, in Belgium overtime grew in spite of an extension of the working week from 36 to 38 hours. In part, more flexible working-hours arrangements were introduced to extend operating times in customer services.

The *postal-service sector*, too, saw a substantial reduction in employment levels at the incumbent monopolists before and after liberalisation and privatisation. In Austria, Belgium, Germany and Sweden, between 15 and 37 per cent of the jobs at the former monopolists have disappeared. Poland forms an exception here because competition in the Polish letter market is still insignificant, with full liberalisation postponed until 2013. Again, not only were employment levels reduced, but also the contractual forms changed, with a marked increase of part-time and fixed-term jobs and other forms of atypical employment. The shift in employment to newly established competitors accelerated this development. While postal companies in most countries have increased the number of part-time workers, other forms of atypical employment, such as marginal or self-employment, are country-specific. However, if not prevented by labour regulations, the new competitors tend to rely particularly heavily on non-standard forms of employment. Hence while in Germany the new competitors employ about 60 per cent of their workforce on marginal part-time contracts or 'mini jobs', only four per cent of the incumbent monopolist's employees have such a contract. In Austria, on the other hand, more than 90 per cent of the workforce of the new competitors in the letter market are self-employed and paid piece rates, and as such lack any form of labour or social protection.

The case studies on *hospitals* show a varied picture: employment partly increased and partly decreased in these organisations. In contrast to case studies on former monopolists in the electricity or postal-service sector, which in many cases still account for the major part of the respective markets, case-study findings on changes in employment levels of individual hospitals do not permit generalisations. The picture is also varied with regard to qualitative employment changes: job gains in the Austrian case are mainly due to the growth of part-time employment and thus the increase in employment in terms of full-time equivalents was marginal. In contrast, in the Swedish and in the Belgian cases the number of part-timers has actually decreased in recent years. The German case study shows that the most far-reaching changes in employment do not necessarily happen after privatisation: while 'downsizing' continued under the new ownership, the biggest cuts in employment occurred prior to privatisation.

In the *local public transport* cases, the picture is similar. There have been job cuts in some of the cases and employment growth in others. Companies increased employment numbers where overall traffic grew, such as in the Swedish case, and where companies successfully tendered for bus-service contracts, such as in the Polish case. While part-time work only plays a marginal role in local public transport, companies resort to split work days and flexible working-hour arrangements to increase flexibility and cut costs. In addition, the introduction of competitive tendering has fuelled an increase in fixed-term employment contracts adjusted to the length of the contract between the employer and the tendering authority. This

can, for example, be found in the Polish case. However, decreasing employment security is partly mitigated by a lack of drivers.

4.2.2. Industrial relations

With few exceptions, the restructuring of public services following liberalisation and privatisation has led to a fragmentation of labour relations and employment conditions. This means that bargaining systems are divided and coverage becomes less comprehensive, the number and variety of actor increases and the wage differentials grow. Differences emerge on a sectoral level between competing companies - often between the former monopoly providers and the new competitors - and within former monopoly providers between the core organisation, newly created subsidiaries and outsourced jobs, as well as between the longstanding workforce and newly hired workers. In some sectors and companies the changes amount to the creation of two-tier or multi-tier labour relations systems (Brandt/Schulten 2008).

In the *electricity industry* growing fragmentation is linked to the restructuring of value chains. As a result of electricity-sector regulation, companies are being demerged and activities outsourced. Legally independent subsidiaries figure under different and from the workers' point of view often less favourable collective agreements or under specific regulations within the same agreements. In Belgium, call centre agents employed by independent call centres are excluded from the comparably favourable electricity agreement, while newly hired staff mostly employed in the new retail subsidiaries earn between 22 and 34 per cent less than the established workforce in production and distribution. In the Austrian case the wage difference between 'old' and 'new' staff is 13 per cent. In the British case, wages are the same, but workers hired after privatisation are not entitled to the comparably generous pre-privatisation company pension scheme. Poland stands out in this respect because the established workforce earns less than the newly hired workers. While 'older' staff will most likely not find a new job if they leave the company, 'younger' workers are profiting from an increasingly tight Polish labour market.

In *postal services*, the German case also reveals differences between 'old' and 'new' employees. Workers hired according to the new postal-service collective agreement earn up to 30 per cent less than those still covered by the old regulation. However, in the post sector differences between former monopoly providers and new competitors are more important, because the corporate strategy of the new competitors is often based on lower labour costs. This is particularly apparent in Austria and Germany, where the incumbents and new competitors are covered by different agreements or, in the German case, by none at all. Before the introduction of a sector-wide minimum wage, wages paid by the new competitors in Germany were only about half of those paid by the former post monopolist. In Austria new competitors largely operate with self-employed workers, who also earn half the pay of the incumbent's permanently employed staff. While in Germany and Austria

liberalisation in the postal-service sector has fuelled wage dumping and part of the service has become a low-wage sector, no such development was observed in Sweden, Belgium or Poland. In Sweden, the former monopoly provider and the new competitor are covered by different agreements but they provide similar standards.

In the *health sector*, too, bargaining and wage determination have been fragmented in some of the countries. This applies to Austria, where the wages in private for-profit and non-profit hospitals are about 20 per cent below those paid by public hospitals, and to the German case, where workers in auxiliary services such as cleaning, kitchen and laundry are not covered by a collective agreement and medical staff had to fight to maintain their wage levels after the company withdrew from the federal employers' association. Similarly, in the Swedish case the unions only obtained a collective agreement that provides the same standards as in other still publicly owned hospitals after a period of difficult and intensive negotiations. In contrast, in the Belgian case study some workers actually profited from the merger of two hospitals as their wages were upgraded to the higher levels in place at the other hospital. However, in the cases covered in the research, only the UK has a single pay system negotiated at national level and applying to all directly employed NHS hospital staff. Only newly appointed staff at outsourced companies have different terms and conditions.

In *local public transport*, privatisation and the introduction of competitive tendering have clearly challenged the existing industrial-relations systems. In the German case, the industry-level collective agreement still covers nearly all municipal transport companies of the federal state where the case study took place. However, subsidiary companies and private companies are not covered. This implies high wage differentials for bus drivers, depending on the status of their employer. As in the electricity sector, former monopolists use the establishment of independent subsidiaries to lower their wage costs. In contrast, Poland lacks industry-level collective bargaining. However, in the case under investigation the union is optimistic on reaching a new company agreement. Yet the tendering system puts pressure for wage moderation on the union and it has resulted in a change from open-ended employment to fixed-term contracts in line with the duration of the contract. As elsewhere, London bus drivers, who had worked under the same terms and conditions before privatisation, now face highly varying wages and employment conditions depending on the company they work for, because bargaining takes place solely at company level. Both in the British and the Swedish cases the cost-cutting effect of the tendering systems became very clear and unions have repeatedly called strikes for higher wages and against the cancelling of work breaks.

The fragmentation of bargaining systems is in many cases underpinned by pronounced differences in unionisation rates. As a rule, union density among the former monopoly providers' workforces is much higher than among the new competitors. In Germany about 80 per cent of the incumbent postal-service company's staff are unionised while hardly more than ten per cent of the competitors' mainly precariously employed workers are union members. In several cases, union density is

also markedly lower at the newly established subsidiaries and among the subcontractors providing outsourced services. Furthermore, privatisation and the continuous reduction of staff numbers present major challenges to the public-sector unions. In the UK, privatisation in more than one case was perceived as an explicit strategy to weaken the unions. But in other countries unions are also competing to win members among shrinking workforces. Consequently, liberalisation and privatisation have in some cases led to a decrease in strikes and other forms of industrial action, while in others the frequency of conflicts has actually increased.

Overall, the case studies illustrate the growing diversity of employment conditions, which partly leads to a marked inequality between workers doing the same or similar jobs. The diversity in part goes back to strategies of reducing wages and worsening conditions for newly engaged workers – sometimes for an extended probation period but usually on a permanent basis, partly it is the result of fragmented industrial relations systems. As the case-study findings indicate, both are the result of liberalisation and privatisation processes and the reactions of the companies to the new business environment. The fragmentation of bargaining occurs where the splitting up of companies, outsourcing and other forms of restructuring value chains is accompanied by, or happens in the context of a decentralisation of industrial relations and by a substitution of company for industry-level agreements. Among the rare examples of workers' resistance against increasing wage differentials is a campaign that led to the introduction of a compulsory minimum wage in the postal sector in Germany. Another example is a campaign that attempts to establish the similar pay and employment conditions across all London bus companies. Given the tendering system, the diversity there is not only a matter of inequality but also of job security.

4.2.3. Human-resource management

The restructuring of companies and their changing business strategies went hand in hand with a reform of human-resource management (HRM). Before liberalisation and privatisation, HRM in some cases meant little more than the administration of civil-servant employment regulations. Some companies hence only introduced special HRM departments and policies during the process of liberalisation and privatisation. As such, HRM policies relate to personnel development and training, management control and staff motivation. As a result, training was partly enforced, though not equally for whole workforces, partly it was cut as a direct consequence of privatisation and the restructuring of work. At the same time, payment systems have become more performance-related. Promotion is also increasingly based on performance assessments rather than seniority. In at least one case, management has attempted to improve control by introducing a system of management by objectives, which, in the final phase, will include individual objectives for each staff member. As a result, changes in the HRM systems serve to further reinforce the growing differences in employment conditions.

Some of the *hospitals* under investigation also put additional emphasis on HRM. The Austrian and the Belgian case studies reported the implementation of human-resource development guidelines and an improvement of training and job-mobility opportunities. In the Austrian case, such activities are limited to the highly-qualified core staff. In the UK case, by contrast, training is also available to outsourced staff, although to a lesser extent and, according to some interview partners, at a lower quality. The German privatised hospital focuses training activities on diagnosis-related documentary work because the classification of diagnoses is seen as an important area in which the profit of the company can be increased.

Unequal access to training was also found in the *electricity industry*. The Polish case study reports that mainly managers and younger employees have access to training while older workers are excluded. In the UK case, privatisation has had an overall negative effect on training provision, because training was among the first areas in which the new private owners cut costs. In the British case study this has led to a severe skill shortage, because the skilled staff members are now approaching retirement age and there is no appropriate replacement for them. In response the company has recently started to put more effort into training young workers, but the number of apprentices still falls considerably short of the pre-privatisation figures.

The Swedish case study in *local public transport* revealed a link between the tendering system and the reduction of bus drivers' training. In the Polish case, by contrast, the employer stepped up training in an effort to tackle a mounting shortage of bus drivers, many of whom had left to work in the UK or other western European countries after Poland's accession to the EU. The company, together with the local employment agency, organised special driving lessons to encourage women to become bus drivers as well. In addition, it hired a group of bus drivers from the Ukraine.

As in the electricity sector, in *postal services* a substantial part of human-resource management activities is aimed at cutting employment by means of non-replacement of retired workers, voluntary retirement and redundancy payments. In several cases, the terms and conditions of such schemes are negotiated between management and the unions within the framework of wider employment pacts. In the Austrian case, employees who decline to leave the company but whose work is no longer needed are transferred to an internal employment organisation called a 'career and development centre'. In the eyes of the trade union representatives interviewed, workers who end up in this organisation are deprived of any prospects and instead are forced to do nothing while waiting for retirement.

With declining career prospects, in particular for postmen and -women, and a growth in part-time work, the internal labour market is losing importance, which also impacts on the forms of management control, with piece rates and close surveillance gaining ground (see below). What is more, the vanishing of the public-sector ethos also requires companies to increase control. A perhaps extreme example is a German case in which the company established a special security department to investigate the theft of postal items. In contrast to improved training in other industries,

deskilling and downgrading of delivery jobs seems to prevail in postal services. Pre-sorting and the use of GPS (global positioning system) devices are turning the occupation of skilled postmen or -women into temporary jobs for easily replaceable young workers, with labour turnover in the case of the Swedish competitor reaching as much as 50 per cent of the staff per year.

4.3. Work organisation and working conditions

The reduction in employment as a consequence of liberalisation and privatisation makes itself felt in the ways work is carried out. In many cases, lower staff levels result in work intensification. In addition, work intensity has been stepped up through the introduction of new control mechanisms and the extensive use of benchmarking that is the comparison with comparable units or services within the same companies or with competitors. Managers in several case studies pointed to the underperformance and lax working conditions before liberalisation and privatisation and the need to improve individual output. Workers and works-council representatives, on the other hand, argued that intensification and flexibilisation have seriously undermined the quality of public-service jobs. Innovations in work organisation rarely released workers from increased workloads and instead often growing work pressure.

In *postal services*, case studies in all countries reveal increasing levels of work intensity and deteriorating working conditions. As the Austrian case, for instance, shows, the measures taken by the management of the former monopoly company include assigning time values to individual tasks in a Taylorist tradition combined with Japanese-style teamwork, with delivery teams becoming responsible for covering the routes of absent colleagues. The regulatory barriers to this had been eliminated in recent years, however, leading to work intensity approaching the workers' physical limits and to shifts exceeding eight hours. In the Polish case too, delivery workers in many districts have problems to finish the job within their eight-hour day. There, the incidence of sick leave is on the increase. In spite of deteriorating working conditions at the incumbent monopolies, case-study evidence from Austria, Germany and Sweden suggests that working conditions are even worse at the new competitors. This relates to the pace of work, unpaid overtime, night work and flexible working hours.

Restructuring in postal services relies heavily on new technology: highly automated sorting centres, technology to optimise delivery routes, portable communication devices, new software for universal post office counters and new monitoring and reporting systems – all these innovations have not only helped to reduce employment levels but also markedly changed the working environment. The Belgian case study illustrates how work is being simplified and becoming mentally less demanding while physical burdens increase: the sorting centres have taken over all sorting tasks, with mobile IT devices prescribing the delivery route.

Increased workloads due to understaffing are also reported from the *electricity industry*. Respondents in the Austrian, UK and the Polish case studies in particular stressed the increasing intensity of work. Apart from staff reductions, the pressures come from the reorganisation of electricity companies. Workers at the Austrian company, for example, complained that unbundling led to an increase in bureaucratic work. The splitting-up of companies results in additional paperwork: maintenance work or other activities need to be charged as these are now carried out for a separate company.

Changes in work organisation may go in different directions, however, as examples from the electricity industry show: while previously specialists were sent in to carry out different jobs, now maintenance workers in the Austrian case have become generalists and carry out 95 per cent of the tasks. In the UK, by contrast, management increased the degree of specialisation, leaving workers with little understanding of areas outside their immediate tasks. The most far-reaching change in work organisation took place in newly created departments in customer relations. Call-centre agents typically use standardised scripts to communicate with customers and they work under considerable time pressure, which is exacerbated by the widespread use of electronic control systems. However, workers at external call centres are said to be worse off in terms of workload and labour conditions.

Work intensification is also a general feature of the changes in work organisation introduced in virtually all of the *hospitals* included in the survey. In some cases the main reason is the patients' declining length of stay, due to which the more demanding admission and discharge procedures make themselves felt more strongly. In others, altered processes and workflows have led to a faster pace of work. In the German privatisation case, the nurse-to-patient ratio went down and administrative tasks were transferred from administrative staff to the nurses, further increasing their already high workload. In the Belgian case, too, staff report an increase in non-patient-care-related tasks, which had led to growing job dissatisfaction. In the UK case, the hospital's reliance on a private finance initiative to raise funds to modernise the hospital has required cost cuts at all levels within the hospital, which, in turn, has meant increasing workloads for large parts of the hospital staff.

Cost cutting is also a prominent issue in *local public transport*. In the Swedish and UK cases, a clear link was revealed between the tendering system and work pressures. In Sweden, companies offer their services at the lowest possible cost, hoping to be able to exploit economies of scale in the long term. Companies tend to eliminate all slack in order to win a contract. In practice, this means that not the slightest problem must occur if they are to fulfil their obligations. For the drivers, who have always worked in a stressful environment, the result is even more stress at work and more sick-leave. In the UK case, too, companies pass the pressure to increase productivity on to their drivers and tend to contact people earlier than previously if they are off sick.

Apart from enhancing work intensity, restructuring mainly impacts on *working hours*: across the different sectors and countries, the case studies showed increasingly

flexible working hours and a rise in overtime. Flexible working hours are among the main measures to cut costs. In *local public transport* working-time flexibility and split work days are used to adapt the drivers' working hours to capacity needs. The breaks are paid in part, but at a different rate. In Poland, for example, interrupted working hours fall under a national regulation according to which workers have to be paid 50 per cent of the minimum hourly pay rate for the breaks between driving hours. Yet bonuses are not paid for such standby periods. The German case study on local public transport illustrates how bad working conditions in terms of flexible working hours with long breaks are passed on within outsourcing relationships: the workforce of outsourced companies has to serve the 'bad lines' with irregular, flexible working hours and long breaks between driving times.

In *postal services*, company strategies have led to new working-time arrangements. In particular, part-time work is used as a means to increase flexibility. Thus, in the German case-study company the daily delivery time was brought forward by making the delivery districts smaller. This, in turn, leads to an increased demand for part-time workers and, possibly, to a phasing out of full-time employment in delivery.

Flexible working hours are also an important issue in the *electricity industry*. In particular, extending the operating hours of customer services into the evenings and weekends boosted the demand for flexible working hours. More flexibility is also achieved through increased overtime, which was reported in several case studies. The Polish case reported that emergency field staff, in particular, are expected to work as long as it takes to restore power. Of course, the number of repair workers has been reduced as a result of liberalisation and privatisation.

Overall, the case-study evidence makes it possible to trace changes in work organisation and working conditions back to restructuring processes triggered by the liberalisation and privatisation of public services. One of the companies' main aims is to cut costs. This is achieved by investing in new technology, by growing workloads brought about by job cuts and changes in work organisation and by reducing labour costs by means of more flexible working-hour schemes. Additional impacts on work organisation include the increase of 'bureaucratic' work entailed by unbundling in the electricity sector, the introduction of tendering systems in local public transport and the standardisation of work in postal services and in electricity call centres.

4.4. Productivity and service quality

Most case studies report an increase in productivity. The result of continuous and substantial reductions in the number of employees is that fewer staff create roughly the same output previously produced by a significantly larger workforce (although the measurement of output is not without problems in public services). In hospitals and partly also in local public transport the objective can also be to fulfil an ever-greater demand with the same number of workers. However, liberalisation and privatisation-related productivity gains recorded at the company level do not necessarily result in productivity growth for the entire sector, let alone for the whole

economy. The duplication of activities such as the creation of alternative delivery networks in postal services or of retail structures in electricity may slow down productivity growth, although the effect is difficult to measure.

Productivity increases have rarely been an objective in themselves in the restructuring processes following liberalisation and privatisation. Instead, productivity gains are the by-product of a general attempt to cut production costs. This has two consequences: Firstly, public-service providers in liberalised markets often combine a rise in productivity with lower labour costs by paying lower wages or using atypical forms of employment (often in combination with outsourcing and the creation of independent subsidiaries). In labour-intensive services such as the postal sector, wage cuts may ultimately be more important to ensure survival in the liberalised markets than investment in greater efficiency, which was of course also made (if wage cuts are not prevented by comprehensive and sector-wide collective regulations).

Secondly, many cases showed improvements in quality through speeding up processes, using new technology or enhancing responsiveness in customer care. However, measures to enhance quality seem to be confined to areas where they do not conflict with the aim of cutting costs and employment, while quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation. Hence electricity providers may extend the operating hours of their centrally operated call centres while at the same time they close down their traditional walk-in centres, where customers could talk to agents face-to-face. They have also reduced the number of repair workers, which increases the waiting period for power to be reinstalled after major breakdowns following storms or other disasters. In postal services, the incumbent monopolists have put substantial effort into speeding up delivery processes and delivering much of the mail only one day after posting. At the same time, however, they have significantly reduced the number of post offices and the number of agents working in the post offices, making it more difficult and time-consuming for private customers to use the service (postmen, also, no longer have time to talk to residents).

Because they are highly labour-intensive services, the tension between increasing productivity and improving service quality is particularly apparent in hospitals and local public transport. True, there has been investment in new buildings, equipment and, in the case of transport, in new vehicles, but the intensification of work has also had negative effects on the quality of service. In several of the hospital cases, respondents voiced concerns that shorter patients' staying times and increased numbers of operations not only increase the risks of malpractice but also leave less time to spend with individual patients (the German case reports a marked decrease in the nurse-to-patient ratio). In local public transport, productivity gains have mainly been achieved by the introduction of flexible working hours. In general, this means greater workloads for drivers. The passengers may not notice a difference, but increasing drivers' workloads can have a negative impact on safety.

In some cases the negative impact on quality may only become apparent in the long term. In two of the electricity case studies, workers and worker representatives maintained that in the long term lower investment (as a result of profit interests or regulatory requirements) in network infrastructures will lead to a deterioration of the network quality and therefore of the security of supply. In one case study, this view was shared by management.

4.5. The role of regulation

Regulation in more than one case had a significant impact on company reactions to liberalisation and privatisation and the outcome in terms of employment and quality. Therefore there are also country-specific differences although providers in liberalised and privatised public-service markets tend to adopt similar strategies. As mentioned above, the mandatory splitting-up of the electricity supply chain gave electricity companies the opportunity to establish independent subsidiaries and to thereby circumvent existing electricity sector agreements. Additional regulation could have prevented the misuse of such requirements for undercutting wages. In postal services it is primarily new competitors that pursue a low-cost strategy based on the payment of low wages. The Swedish case shows that in countries where employment regulations prevent such a strategy, competitors are forced to adopt alternative schemes that are compatible with minimum standard of employments and working conditions. The recent introduction of a minimum wage for the entire postal-service sector in Germany also underlines the importance of regulation. Apart from comparable employment and working conditions, detailed quality regulations and standards can also strongly impact on company strategies and practices as the example of the Belgian hospital case study shows. The hospital case studies more generally indicate that sufficient funding and the quality and extent of regulation is more important than the question of whether a hospital is publicly or privately owned.

4.6. Conclusions

The case studies on the impact of the liberalisation and privatisation of public services provided detailed insights into company strategies, organisational change, employment consequences, industrial relations, working conditions and service-quality aspects. The findings show that companies have taken different approaches in tackling the liberalisation and privatisation of public services and the threat of competition. Reactions included mergers and acquisitions, investment outside their home markets and the diversification of supply; the diversification of customer relations, including new pricing policies that favour some groups of customers over others; a reduction of production costs through concentration, outsourcing and the introduction of new technology; a reduction of employment and the payment of lower wages (through lower wages for new employees, the creation of independent subsidiaries and outsourcing) as well as an intensification of work; training has been stepped up for some groups of workers while it has been cut for others.

Overall, the case studies show that in many cases the main company objective, i.e. the reduction of production costs, has been reached at the cost of workers, many of whom have experienced liberalisation and privatisation primarily as a worsening of employment and working conditions. This has been achieved by a far-reaching fragmentation of labour standards. In some sectors and countries, such as postal services in Austria and Germany, liberalisation and privatisation even threaten to transform a public service into a low-wage sector. While most case-study companies have increased productivity, usually as a result of staff cuts, the consequences for the quality of services are mixed: there has been some improvement in areas where it was possible to combine quality gains with investment in new and often labour-saving technology (e.g. the next-day delivery of post items). However, quality aspects that depend on substantial labour input, such as patient care or bus driving, have suffered as a result of liberalisation and privatisation.

In sum, the main objective of companies in liberalised and privatised markets is to make profits and they do so, among other things, by cutting costs. Not surprisingly, in their efforts to reduce costs, companies adopt practices, such as outsourcing, that have often been used - or are current management fashions - in the wider economy. Frequently this has been combined with improvements in productivity and, in some cases, in quality. Often, however, cost reductions have been based on worsening employment and working conditions, which more than once have had a negative effect on quality. Overall, the changes have clearly contributed to increases in societal inequality, both among European citizens, who are affected by customer differentiation and discriminatory price policies, and workers, who receive increasingly different wages for doing the same job.

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5. THE IMPACT OF LIBERALISATION AND PRIVATISATION ON LABOUR RELATIONS

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This chapter is based on a comprehensive research report on “liberalisation and privatisation of public services and the impact on labour relations”, which includes a comparative study on the postal, hospital, local public transport and electricity sectors in six countries (Austria, Belgium, Germany, Poland, Sweden and the UK).

5.1. Introduction

The promotion of liberalisation (and more indirectly also privatisation) of public services has been one of the core political projects of the European Union since the 1990s. It has been justified by the expectation that the creation of new markets would lead to greater efficiency and would promote both more economic growth and social wealth. Since 2000, the advanced liberalisation policy of growing parts of public services has also become a core element of the Lisbon strategy, which aims “to make the European Union the most competitive and dynamic economic area in the world – an economic area which is able to link sustainable economic growth with more and better jobs and a stronger social cohesion”.

While liberalisation, above all, is about the introduction of competition in formerly protected markets, the question of what parameters companies should compete on has widely been neglected in liberalisation and privatisation discourses. Although there are many different forms of competition, companies can essentially follow two different strategies: they can either compete on quality and innovation, which includes elements such as innovative products, high service quality, efficient and productive organisation of work and production (including a well trained and motivated workforce) etc., or they can compete on labour costs, by lowering wages, extending working hours or using special forms of employment linked with lower labour costs (e.g. self-employed workers, subsidised employment). The first approach can be described an innovation and quality-driven competition model that follows a *high-road strategy* to corporate success. The second approach tends to ensure a downward spiral with deteriorating wage and employment conditions resulting in a *low-road economic survival strategy*. Of course, if allowed to do so, companies will always try to lower their wage costs, especially in labour-intensive sectors with a high proportion of labour costs. Regulations, including industry-wide collective agreements that prevent companies from adapting a low-road strategy, are therefore all the more important.

The impact of liberalisation and privatisation on labour relations is thus of vital importance for the question of what strategy public-service providers follow in

liberalised markets. As the services under discussion are public services, which means that they are essential for the well-being of many citizens, competition should not only focus on lowering prices, but also on facilitating innovation, improving quality and expanding accessibility. In order to avoid competition that is primarily carried out at the expense of the employees, liberalised markets need a strong labour regulation that creates a common level playing field for all competitors and makes it possible to follow a high-road strategy.

5.2. Main Findings

Liberalisation and privatisation have far-reaching consequences for the established labour-relation regime (LRR), defined as coherent set of institutions (statutory regulations, collective bargaining and employee representation) regulating labour relations in a particular sector. With the creation of new markets and the transformation of former public entities into profit-oriented organisations, the companies affected are put under significant competitive pressure. Since many of the affected sectors, such as postal services, public transport or hospitals, are labour-intensive with labour costs making up two-thirds of total production costs, the reduction of labour costs is a core element in improving competitiveness. Labour costs can be reduced by rationalising production processes (substituting machines for workers) or by lowering wages, extending working hours or using cheaper forms of employment. In order to save labour costs, liberalised and privatised companies have tried to withdraw from the traditional more expensive LRR of the public sector and set up new forms of regulation. As a result we have seen the emergence of new LRRs which often have *no or only weak links to the old LRR of the public sector*. This includes far-reaching changes in collective bargaining, wage levels, and employment conditions.

5.2.1. The traditional labour-relations regime of the public sector

There are at least five main characteristics of the traditional LRR of the public sector: A *first* major characteristic has been the relatively strong position of trade unions in the public sector, with a trade union density considerably above the *average rate of organisation*. Trade unions traditionally have had a strong influence both at political as well as at workplace level, which ensured that the public employers would sit down at the negotiation table even if many public-sector unions did not have formal bargaining rights. In some countries, public-sector unions also enjoyed additional co-determination rights that went beyond those granted in private-sector enterprises. Due to the extraordinary strength of their unions, public-sector workers were able to gain various additional benefits.

A *second* characteristic of the traditional public-sector LRR has been the relatively centralised collective bargaining structure. Hence, while in several European countries wages and working conditions were formally imposed by statutory regulations rather than collective agreements (e.g. Austria, Belgium, Poland and in Germany civil servants), through informal but comprehensive and highly centralised

bargaining processes the unions nevertheless had a strong impact on the norms and standards that govern employment in the public sector. In several countries centralised collective bargaining has covered the entire public-service sector, including a wide range of sub-sectors.

Individual wage agreements, in contrast, have been virtually absent in the public sector. Wages were exclusively negotiated on a collective level and laid down in detailed wage schemes. The assignment to particular wage groups was based on objective criteria such as certified qualifications and seniority rather than on individual experience and the demand for specific skills. Performance-criteria or performance-based supplements, widely applied in private-sector companies, played no or only a marginal role in public-sector wage relations. Instead, wage differentials were based on seniority and on specific supplements attached to certain workplaces or tasks rather than on individual performances. Due to the absence of individual wage agreements and performance-based supplements, income inequality was much less pronounced in the public sector than in private companies.

The relatively low degree of wage dispersion has been a *third* major characteristic of the public sector LRR. While more qualified employees have usually earned less than their colleagues in private industry the opposite has often been the case for less qualified employees. The public sector therefore became a reservoir for decent jobs for low- and medium-qualified workers. The absence of performance criteria also had an important effect on working conditions. Working conditions were seen as an essential part of a complex set of formal and informal rules that governed the provision of public services. These rules, among other things, were meant to ensure that economic pressure would not compromise the quality and security of services and that each client would get exactly the same treatment. They also gave the public sector LRR an explicitly political character. Public-sector workers were subsequently less motivated by expected wage increases than by what is known as the public-sector ethos. On the other hand, the absence of individual incentives also meant that sometimes public sector workers *had a lack of motivation*.

A *fourth* main feature of the traditional public sector LRR has been the long-term nature of the employment relationship and the subsequent extraordinary degree of employment stability. Many public-sector workers had civil-servant status or the equivalent, in the sense that they could be dismissed only in very exceptional circumstances. In some cases, job protection went as far as requiring management to obtain the consent of the respective employee and/or works-council representative to re-assign workers to new posts within the same organisation or company. The high level of job security persuaded workers to take up public-sector jobs even if public-sector wages could hardly keep-up with those in the private sector.

Fifth and finally, the public sector was also seen as an important instrument of employment policy. Until the 1980s, many European governments used the extension of public services to compensate for cyclical job losses in the private-sector economy. Later on, the public sector in several countries became a forerunner in

offering relatively well-paid part-time jobs and so became an attractive employer, in particular for women.

To sum up, the strength of public-sector unions and the comprehensive and centralised bargaining structures led to a relative stability and predictability of working hours, a high degree of wage equality and employment security, shorter working hours and lower retirement ages.

5.2.2. The emergence of a new labour-relations regime in the liberalised and privatised sectors

Liberalisation and privatisation of public services have fundamentally challenged the traditional LRR in the public sector. In liberalised markets, former public companies and monopoly suppliers have been forced to transform their entire organisation into a private for-profit business and have to compete with new private companies. The affected sectors and companies have been put under increasing competitive pressure to reduce labour costs, and they consequently try to transfer this market pressure to the workforce. As a result, new LRRs have emerged in liberalised and privatised sectors with no or only very weak links to the traditional public-sector LRR.

Although there are some significant national differences and variations, the main characteristics of these new LRRs can be described as follows (Table 5.1): Regarding collective bargaining, liberalisation has usually led to a two-tier system with relatively stable bargaining structures at the level of the incumbent and a rather decentralised and fragmented bargaining structure with a low bargaining coverage at the level of the new competitors. One of the first things former public-sector companies often do after privatisation is to withdraw from the central public-sector collective agreement in order to establish their own bargaining structures (mostly in the form of new agreements at company level). Furthermore, after liberalisation new competitors emerged, which in several sectors and countries are covered by no or different collective agreements and which profit from lower employment standards (lower wages and longer or more flexible working hours).

This two-tier system corresponds with a union density that is relatively high within the former public monopolists but often rather low within the new competing companies, so unions often simply do not have the organisational power to push for new collective agreements. Following this, the newly liberalised markets often lack any sector-wide regulation or coordination of labour issues that might limit or even prevent competition on wage costs.

However, liberalisation and privatisation has not only enforced a decentralisation and fragmentation of collective bargaining at sectoral level but has also led to a growing fragmentation of labour regulation within companies. Whereas under the public sector LRR the employees were treated as a relatively homogeneous workforce, within privatised companies there is a growing division between “old” and “new” employees and between the core and peripheral workforce. Long-standing employees are still covered by civil-servant statutes while more recently hired workers are

employed as private-sector workers based on the private-sector employment statutes. As such they not only enjoy lower employment security but in many cases also receive lower salaries for the same job than they would have under the civil-servant regulations. Additional segmentations follow from the increase in contracting-out practices, which typically increase in liberalised and privatised companies and which often go along with new or even no collective agreements for the workers affected. The result is a two-tier workforce with significant differences regarding pay and working conditions. The same holds true for the level of job security, which remains relatively high for the shrinking core workforce of the incumbent, but is rather low for peripheral workers.

Table 5.1: Labour relations before and after liberalisation

	Public sector LRR (before liberalisation)	LRR after liberalisation	
		Incumbent (former monopolists)	New competitors
Collective bargaining	Centralised wage setting	Bargaining at company level	Decentralised, fragmented or no agreements
Bargaining coverage	High	High	Low
Union density	High	High	Low
Work status	Civil servants and public employees	Decrease in civil servants and increase in private sector employees	Private-sector employees, self-employed
Workforce	Relatively homogeneous workforce	Two-tier workforce (strong division between core and peripheral workers)	
Job security	High	Relatively high for the shrinking core workforce, increasing number of employees with temporary contracts	Low
Competition on wages and working conditions	Low	High	

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

5.2.3. Sector- and country-specific developments

The extent to which liberalisation and privatisation lead to competition on wages and labour costs with potentially negative effects on working and employment conditions depends basically on two factors. First, it depends on the degree of real market competition in the respective sectors. As has been shown in other papers in the PIQUE Project, liberalisation and privatisation have not always automatically led to

more competition, and in some sectors and countries competition is de facto still rather limited.⁵ However, companies in the affected sectors often already use the potential of higher competition to put pressure on wages and working conditions. The second factor, which strongly influences the degree of competition on labour costs, is nature of the national LRRs and their abilities to create a sector-wide regulation on working conditions in order to create a common level playing field.

Table 5.2 gives an overview about competition on labour costs in liberalised and privatised sectors and existing differences between incumbents/public companies and new competitors. It is noticeable that in countries with more centralised and comprehensive collective bargaining systems, such as Belgium or Sweden, the degree of competition on labour costs is still rather low, since a strong sector-wide regulation and/or coordination is able to ensure that wages and working standards are quite similar. In contrast, in countries with more decentralised collective bargaining systems, such as Poland or the UK, moderate or even strong competition on labour costs has emerged in many sectors. Finally, in Germany and to a lesser degree also in Austria, liberalisation and privatisation have contributed to a significant decentralisation and fragmentation of collective bargaining, leading to a moderate or even strong competition on labour costs. The most extreme case is the German letter market, where wage differences between the incumbent and the new competitors are up to 60%.

Table 5.2: Competition on labour costs in liberalised and privatised sectors

Country	Sector			
	Post services (letter market)	Electricity	Local Public Transport	Hospital
Austria	Strong	Low	Moderate	Moderate
Belgium	Low	Low	Low	Low
Germany	Strong	Moderate	Strong	Moderate
Poland	Moderate	Low	Strong	Low
Sweden	Low	Low	Moderate	Low
United Kingdom	Low	Moderate	Moderate	Moderate

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

⁵ Christoph Herrman and Koen Verhoest, Varieties and Variations of Public Service Liberalisation and Privatisation, PIQUE Policy Paper No. 1, February 2008.

5.2.3.1. Postal services

In most countries the liberalisation and privatisation of postal services led to a massive reduction in employment. The former state-owned postal companies are typically no longer part of the public-sector agreements. Instead, the former monopoly providers now have their own company agreements. Labour relations in the newly established postal companies vary from country to country. In countries that traditionally have a rather comprehensive collective bargaining system with a strong regulation at sectoral level (e.g. Belgium or Sweden) the liberalisation of postal services has had rather different effect than in countries with a more decentralised and fragmented bargaining system. In the Swedish postal sector there are different company agreements for the incumbent and the main new competitor, which are, however, closely coordinated by the trade unions and therefore contain no major differences in substance. In contrast to Belgium and Sweden, all the other countries have a rather fragmented bargaining structure with agreements at company level only or no agreements at all. Without sectoral regulation there is a strong potential for wage dumping. Such practices can be found in the German letter market, where employees with the new competitors have substantially lower wages and more flexible working hours, but also in Austria, where the majority of the workforce in the new competitors are self-employed and therefore lack the coverage of any form of employment standards or protection. In Germany there are also growing differences within public companies, with new entrants being offered worse employment conditions than the more senior staff. As a highly labour-intensive industry, there is a strong downward competition on labour costs within the German postal sector.

Table 5.3: Collective bargaining in the postal sector (letter market)

	Austria	Belgium	Germany	Poland	Sweden	UK
Incumbent	Company agreement	Company agreement	Company agreement	Company agreement	Company agreement	Company agreement
Competitors	Various sectoral and company agreements. No bargaining for self-employed deliverers	Sectoral agreement	No agreements; sectoral-level minimum wage regulation	No agreements	Company agreements	Some company agreements

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

5.2.3.2. Local public transport

All these countries have seen some formal and (partial) privatisations of local public-transport companies and outsourcing measures. There has also been a tendency for

privatised companies to withdraw from public-sector collective agreements. Private transport companies (e.g. in Germany, Poland or the UK) have tried to gain competitive advantages over their public competitors through a strategy of wage dumping on the basis of no collective agreements or separate ones that provide much lower wages and working conditions. Wage dumping is also possible on the basis of collective agreements (e.g. in Germany). Again, in countries with a more comprehensive collective bargaining system, such as Belgium or Sweden, such a strategy has been limited by strong sector-wide regulation. In Belgium the consideration of labour conditions has partly been included in the public tenders, and in Sweden self-employed drivers are not covered by collective bargaining and special labour regulations.

In the local public-transport sector, liberalisation and privatisation has not only led to a fragmentation of bargaining structures and pronounced differences between public and private providers. In addition, there are also growing differences within public companies, with new entrants being offered worse employment conditions than the more senior staff.

Table 5.4: Collective bargaining in the local public-transport sector

	Austria	Belgium	Germany	Poland	Sweden	UK
Incumbents	Sectoral and company agreements	Company and sectoral agreements	Sectoral and company agreements	Company agreements	Company and sectoral agreements	Company agreements
Competitors	Sectoral agreement		Company or no agreements	Company or no agreements	No bargaining for self-employed	

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

5.2.3.3. Electricity

Liberalisation measures have, for the most part, led to a decline in public ownership and higher market concentration by large private suppliers. Reorganisation measures and mergers have led to massive job reductions. Nevertheless, compared to the other sectors, in the electricity sector changes in bargaining structures have been rather modest. These changes are mostly the result of the outsourcing of certain services. In addition, there is a tendency for wage differentials to increase, with wages being still comparably high in the production segments but lagging behind in the retail part of the electricity supply chain. In sum, however, bargaining structures remain largely intact and bargaining coverage is still extensive.

Table 5.5: Collective bargaining in the electricity sector

	Austria	Belgium	Germany	Poland	Sweden	UK
Incumbent	Unilateral state regulation	National agreements	Sectoral and company agreements	Sectoral and company agreements	Sectoral and company agreements	Company agreements
Competitors	Company and sector agreements	Company agreements	Company agreements	Sectoral and company agreements	Sectoral and company agreements	

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

5.2.3.4. Hospital sector

In the hospital sector liberalisation has taken the form of a general commercialisation of health services. So far, Germany is the only European country that has shown a strong tendency towards the full material privatisation of public hospitals and their sale to private for-profit hospital corporations. All private German hospital companies have withdrawn from the public-sector collective agreements and made their own arrangements. In other countries the dominant form of privatisation the hospital sector is still the contracting out of services such as cleaning, catering, laundry, security or administrative services. For the employees in these sectors, outsourcing usually means that they are no longer covered by the public-sector agreements and have to accept a significant deterioration of wages and working conditions. However, labour relations in public hospitals are usually still part of the public-sector labour-relations regime. There are sectoral agreements for private hospitals in Austria, Belgium and Sweden. In the other countries, private hospitals are either covered by company agreements or not covered at all. Depending on the national labour market situation, wages and working conditions in private hospitals can be either lower or higher than in public clinics.

Table 5.6: Collective bargaining in the hospital sector

	Austria	Belgium	Germany	Poland	Sweden	UK
Public hospitals	Unilateral state regulation/ company agreements	National public sector agreement	National public sector agreement	Unilateral state regulation	National public sector agreement	National agreement
Private for profit hospitals	Sectoral agreements	-	Company or no agreements	Company or no agreements	Sectoral and company agreements	Company or no agreements

Source: Torsten Brandt and Thorsten Schulten, Liberalisation and privatisation of public services and the impact on labour relations, December 2007. PIQUE Research Report. Available to download from www.pique.at.

5.3. Conclusions

The liberalisation and privatisation of public services has led to a fundamental transformation of the established labour-relations regimes in the public sector with far-reaching consequences for employment and working conditions. The consequences are most obvious in those liberalised sectors that have already achieved a high degree of market competition and where wage costs are a crucial element in the competitive position of the individual company. The German letter market is a prime example where the competitive strategy of new competitors is mainly based on wage dumping and relatively poor working conditions. In most other sectors and countries the competition on wage costs is still less pronounced, due to a much lower degree of market competition. However, this may change in the future.

From an employee's point of view there is a strong belief that liberalisation and privatisation primarily threaten established standards and lead to a significant deterioration of pay levels and working conditions. The PIQUE Project may indeed have found some evidence for such a view. Especially the new competitors, which emerged after liberalisation, often provide much worse working conditions than the incumbent or the remaining public companies. Under competitive pressure the latter also started to change their working conditions, e.g. through the establishment of two-tier wage structures and a growing divisions between a core and a peripheral workforce.

With the trend towards decentralisation and fragmentation, collective bargaining has often lost its capacity to create a level playing field and to take wages and working conditions out of competition. In order to avoid a downward competition at the expense of the employees and to focus on a more innovation and quality-oriented model of competition, there is a pressing need for social (re-)regulation in liberalised and privatised sectors. Since the policy of the European Union has a major impact on the liberalisation process, social regulation requires political action at both national and European level.

5.3.1. Social regulation at national level

At national level there are already a number of “good practices” that have been established to limit wage competition. In Belgium and Sweden the trade unions have mostly been able to guarantee similar working conditions for employees at the incumbents and the new competitors through the established systems of sectoral coordination, even if both are covered by different collective agreements. In Germany and Austria the trade unions are also trying to coordinate their bargaining policy at sectoral level while using the public-sector conditions as a benchmark. However, due to the lack of union members in the newly established companies this has not always been very successful.

A strategy for a sector-wide social regulation could be supported by the state through the extension of collective agreements, the determination of sector-wide minimum wages and standards or through the linking of public procurement and collectively agreed standards. The latter has been the case, for example, in the Belgian local public-transport sector, where public tenders include a special clause referring to certain working conditions in the public sector, which have to be guaranteed by the private contractor too. In Germany, various federal states (*Länder*) have legal provisions under which public contracts can be awarded only to companies that have declared that they use a certain collective agreement. Similar forms of regulation linking public procurement with the promotion of certain social standards can be found in Austria, Sweden and the UK.

In contrast to many other EU member states, none of the countries covered in the PIQUE project has a strong mechanism to extend collective agreements to the whole sector. However, in autumn 2007 the trade unions and some employers (mainly those related to the incumbent) in the German letter market signed a collective agreement on minimum wages, which the Ministry of Labour later extended to the whole sector - in the face of protests from the main competitors.

A further major challenge related to liberalisation and privatisation is to overcome regulations that create a two-tier workforce. The latter is systematically undermining the basis for solidarity among employees and creates a permanent threat even to the relatively well-situated core workforce. It has also clearly negative consequences for the motivation and productivity of the employees. In the UK, for example, the unions have been running a “fair wage campaign” to end two-tier workforce systems in the hospital sector and have demanded the same wages and working conditions for hospital employees working in the National Health Service as well as for hospital employees working for private sub-contractors. As part of the 2005 “Warwick Agreement” the unions and the Labour government reached a commitment in principle to end the two-tier workforce in public services. In the same year the unions and the Department of Health concluded an agreement with private contractors that employees such as hospital cleaners, porters and catering staff would, in future, receive the same pay and working conditions as NHS staff.

Another strategic point of regulation might be the policy of the regulatory agencies, which could also contribute to strengthening social regulation in liberalised markets and to providing “fair competition” that is not run at the expense of the employees. The German post law, for example, contains a “social clause” according to which companies will only receive a licence to provide postal services if they guarantee the conventional working conditions in the sector. The intention of this clause was to avoid wage dumping, although in practice it has not been used by the German regulatory agency.

5.3.2. Social regulation at European level

Since there is a growing awareness of the (potentially) negative effects of liberalisation and privatisation for employees, the social regulation of liberalised markets has also become an important policy issue at European level too. Considering the recent EU regulation on public transport in 2007, for example, there is a provision according to which public authorities are free to impose certain social standards in order to “ensure transparent and comparable terms of competition between operators and to avert the risk of social dumping.”⁶ There is a similar passage in the new EU directive on postal services, which explicitly emphasises that “social considerations should be taken into account when preparing the opening up of the postal market.”⁷ Moreover, according to the EU directive on public procurement, public authorities are always free to define certain social standards in public tenders.⁸

In contrast to these provisions, which explicitly enable social regulation in liberalised markets at national level, some recent decisions of the European Court of Justice (the Laval, Viking and Rüffert cases) have argued that certain national regulations on the protection of workers violate the principle of economic freedom as laid down in the European Treaty. The ECJ judgement in the Rüffert Case, for example, stated that the legal provisions in Germany, which link the award of public contracts to the use of collective agreements, infringe the freedom to provide services.

In order to avoid the negative consequences of liberalisation and privatisation, the EU should not undermine the national competences for social regulation. After the recent ECJ judgements it seems to be necessary to clarify the basic interpretation of the European Treaty in order to ensure that economic freedom is not placed above

⁶ Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, OJ L 315, 3.12.2007, 1-13.

⁷ Directive 2008/6/EC of the European Parliament and the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services, *Official Journal of the European Union* L 52, 27 February 2008, OJ L 52, 20.02.2008, 3-20.

⁸ Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts, OJ L 134, 30.4.2004, 114-240.

social protection, for example through the introduction of a “Social Progress Clause” as recently proposed by the European Trade Union Confederation.⁹

Finally, there should be a regular monitoring of the impact of liberalisation and privatisation on labour relations and working conditions at EU level. Here is also an important role for the European social dialogue between trade unions and employers’ associations in the affected sectors, which could help to identify good national practices for the social re-regulation of liberalised markets.

To sum up, liberalisation and privatisation have so far promoted a model of competition that is largely based on the reduction of wage costs and not on the improvement of quality and innovation. As long as liberalisation is widely associated with the deterioration of working conditions it will continue to lack support and legitimacy among large sections of the employees affected. The alternative is a social (re-)regulation of liberalised markets that protects and improves working standards and so puts the focus on a high-road strategy in order to achieve both better work and better services.

⁹ European Trade Union Confederation, ETUC response to ECJ judgements Viking and Laval. Resolution adopted by the Executive Committee of the ETUC at its meeting of 4 March 2008 in Brussels.

6. PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON EMPLOYMENT AND PRODUCTIVITY

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This chapter is based on two research reports - one on the impact of liberalisation and privatisation on employment and the other one on the impact on productivity.

6.1. The issues

Some very strong claims are made of the enhanced benefits to the public services enjoyed by European citizens as a result of privatisation and liberalisation. The introduction of competition and the allocation of resources by markets and in the interests of private shareholders are claimed to improve efficiency of service delivery, allow service delivery to take place at a lower cost, and hence to improve productivity and allow for better service quality at the same level of inputs.

These productivity gains are supposed to be transformed into higher levels of outputs and greater societal wealth, thereby raising overall living standards and enabling higher consumption levels and greater consumer choice. The growth of the market sphere is in turn supposed to lead to higher employment. The European Commission therefore asserted in its 2003 *Green Paper on Services of Public Interest* that the impact of market opening on net employment in the network industries has been broadly positive: 'Job losses, particularly amongst former monopolies, have been more than compensated for by the creation of new jobs thanks to market growth.'

In a similar vein, Copenhagen Economics (2005) argues that market opening in the EU-15 network industries has succeeded in increasing productivity. As network industries provide crucial inputs for production in all other sectors of the economy, market opening, according to this view, has led to significant spill-over effects to the rest of the economy, contributing significantly to the overall economic gains in terms of welfare, consumption and employment. The authors estimate that the knock-on effect of lower input prices from electricity and telecommunications will create an additional 500,000 jobs in Europe. There have, however, been few critical assessments of the validity of such assumptions.¹⁰ The PIQUE project aims for such an evaluation with respect to employment, productivity and - at a later stage - service quality. Yet it also goes beyond the aforementioned claims by looking beyond network industries and including other public-service sectors in the analysis. In

¹⁰ Notable exceptions are Mehmet Ugur (2007) as well as Raffaele Doronzo and Massimo Florio (2007).

addition, PIQUE attempts, as far as the data allow us to do so, to be more specific and to account for the different timing of liberalisation and privatisation processes in the different countries - this is especially important for productivity, where short-term changes have to be disentangled from long-term trends - and for the different degrees of competition and changes in ownership structures.

In some cases, such as the UK electricity sector, there was a clear timetable for both privatisation and liberalisation and it is possible to identify distinctive pre- and post-privatisation and -liberalisation periods, even if there may still be some debate over the timescale over which these processes can have an impact on employment and productivity. In other sectors and countries - local transport in Austria and Germany for example - the process has been much less clear-cut and it is difficult to argue that there has been any significant moves towards a more privatised or liberalised sector, certainly when looking at the sector as a whole from a national perspective. As Policy Paper 1 tries to summarise, in these countries there has been a 'limited' or 'very limited' move to more competitive markets accompanied by limited or moderate increases in private ownership (see Table 6.1).

The hospital sector is one where it is also very difficult to identify a key point in time when privatisation or liberalisation has been introduced or implemented in any kind of systematic way on a national basis. There have certainly been trends to make greater use of the private sector in some areas, with the outsourcing of non-clinical services, such as cleaning and catering, but only in Germany has there been a significant and identifiable trend to privatisation of hospitals themselves (we therefore occasionally use the terms 'commodification' and 'marketisation' rather than 'liberalisation' and 'privatisation' to indicate a significant shift in the development). It is also important to note that even where there has been a formal process of liberalisation - such as the implementation of legislation to allow new companies to enter a market - this does not necessarily mean that there has been a real transformation from a single supplier to a competitive market. In several instances, the key privatisation periods took place in the mid to late 1990s. There are exceptions, principally of the electricity sector in the UK, where the most rapid changes took place between 1990 and 1996, and of local transport in the UK and Sweden, where the main developments took place in the mid-1980s (bus transport in Sweden and outside London in the UK).

For employment, Eurostat data and national data for the sectors and countries under investigation allow us to analyse roughly a ten-year period reaching from the mid-1990s to 2005. For productivity data is only available for somewhat broader sectors but in turn available data reach as far back as 1970.

6.2. The countries and sectors

There are also some differences in the general economic performances of the target countries that may have had important consequences for the liberalisation process. Since 1995 all six countries have seen steady economic growth with annual

percentage increases in real GDP averaging between 1.5% (Germany) and 4.6% (Poland). Austria and Belgium both saw GDP growth average 2.2% while it was higher in the UK (2.8%) and Sweden (3.0%). From 1995 five of the six countries experienced overall employment growth ranging from 3.8% in Germany to 12.2% in the UK, with Sweden (7.3%), Austria (7.6%) and Belgium (9.9%) in between. Poland was the only country to register a fall in employment (-4.7%). Across European economies in general there has been a trend towards greater use of part-time employment. Austria, Belgium, Germany and Sweden saw an increase in the part-time rate of between 4% and 8% since the mid-1990s. The UK stands out as having a part-time rate of around 25% in the past ten years, while in Poland the proportion of part-time has been comparable low with about 11%.

The experience of liberalisation and privatisation varies from country to country and from sector to sector. Here we show a summary chart outlining the major tendencies across the six countries broken down by major liberalisation and privatisation processes, with significant dates included where they can be identified. We then describe the detailed developments and employment outcomes in each of the four sectors, electricity, post, local transport and health.

Table 6.1: Sector trends in liberalisation and privatisation in six EU economies

		Austria	Belgium	Germany	Poland	Sweden	UK
Electricity	Lib	Limited (1999)	Very limited (2000)	Limited (1999)	Strong (1999)	Moderate (1996)	Strong (1990)
	Priv	Substantial increase (1988)	Moderate increase (nrd)	Substantial increase (1985)	Substantial increase (2008)	Substantial increase (1995)	Very strong increase (1990)
Postal services: letter and direct mail market	Lib	Limited (1998?)	Limited (1998)	Rather limited (1989)	Very limited (1991)	Moderate (1991)	Rather limited (1998)
	Priv	Substantial increase (2006)	Substantial increase (1998)	Strong increase (1989)	Marginal increase (nrd)	Limited increase (1994)	Limited increase (2001)
Local public transport	Lib	Limited (nrd)	Very limited (2002)	Rather limited (nrd)	Limited (nrd)	Strong (1985)	Strong (1985)
	Priv	Limited increase (nrd)	Very limited increase (2002)	Moderate increase (nrd)	Limited increase (nrd)	Strong increase (1985)	Very strong increase (1985)
Hospitals	Lib	Limited (nrd)	Limited (nrd)	Moderate (nrd)	Limited (nrd)	Very limited (nrd)	Very limited (nrd)
	Priv	Limited increase (nrd)	Moderate increase (nrd)	Strong increase (nrd)	Limited increase (nrd)	Very limited increase (nrd)	Limited increase (nrd)

Lib = Liberalisation; Priv = Privatisation; nrd = no relevant date

6.3. Employment in the liberalised sectors

The evidence presented below focuses on the development of employment numbers in the sectors included in the PIQUE project. In order to ensure comparability, data is primarily drawn from Eurostat and here from structural business statistics (SBS). These data are available covering the sectors looked at in the PIQUE project.¹¹ The disadvantages of this data are that the information on forms of employment is limited and that data are not available for all countries for the same years, although in most cases they cover the mid-1990s to 2005 (this is why we compare yearly averages rather than total employment reduction in the tables below). Eurostat-SBS data has therefore been complemented by additional data from national data sources. If available for the sectors under investigation we use national Labour Force Survey Data, but for some countries we rely on alternative national data sources.¹² Due to different methods of collecting data, LSF data tend to show lower employment numbers than SBS-data. But with few exceptions (e.g. postal sector in Germany) they still show the same development.¹³ In the case of electricity, we use a study on employment effects commissioned by the European Commission (ECOTEC 2007).

6.3.1. Electricity

Despite significant variations between countries and between data sources, the electricity sector has experienced a substantial loss of employment since the mid-1990s. Within the EU-15 total losses amount to 246,000 jobs between 1995 and 2004 (Ecotec 2007). In relative terms the reduction between 1995 and 2004 amounts to between a quarter and a third of the previous employment levels (if we stretch the period to the early 1980s, the fall in employment in the UK would even amount to 50%). Losses of 30% and more were recorded in Germany (Ecotec), Sweden (Ecotec), between 20% and 30% in Austria (Eurostat-SBS, national data source and Ecotec), Belgium (Eurostat-SBS and Ecotec) and the UK (national data source and Ecotec). Poland stands out in this comparison as the country with the smallest decrease in employment (9% between 1995 and 2004).

¹¹ Electricity (NACE 401), Post and courier activities (641), Other scheduled passenger land transport; taxi operation; other land passenger transport (6021 to 6023), Health and Social Work (85) and hospital activities (8511).

¹² Austria & Germany: Labour Force Survey; Belgium: Data warehouse Social Security; Sweden: Registerbaserad arbetsmarkandsstatistik (Register based labour market statistic); Poland: Central Statistical Office (Employment in National Economy); UK: Annual Business Inquiry.

¹³ While SBS data is based on interviews with company representatives, LFS data is based on interviews with workers.

Table 6.2: Employment change in electricity

	Eurostat-SBS*	National data sources**	ECOTEC (1995-2004)	
	Yearly averages %	Yearly averages %	Yearly averages %	Total reduction%
Austria	-2.4	-2.3	-2.6	-24
Belgium	-2.4	-	-2.4	-22
Germany	-2.8	-0.6	-3.7	-34
Poland	-1.1	-2.3***	-1	-9
Sweden	-0.8	-1.4	-3.6	-33
UK	-1.6	-3	-3.1	-28
EU-15			-3.4	-31

*Eurostat-SBS : AU & BE: 1995-2005; PO & UK: 1996-2004; SE: 1997-200004; GE: 1998-2004.

**National Data Sources: AU Labour Force Survey - 1995-2006; BE Data Warehouse Social Security – 1997-2004; GE: Labour Force Survey - 1995-2005; SE: Register based labour market statistics – 1995-2006; Poland: Central Statistical Office – 1996-2006; UK: Annual Business Inquiry - 1998-2005.

***Electricity, gas, steam and hot water supply.

With the exception of Poland all countries have experienced an increase in part-time employment. In Austria the part-time rate increased from 3.5% to 9.4%, but in all countries the proportion of part-time in the electricity sector is still well below the percentages for each economy as a whole. In Poland the proportion of part-time workers in the sector actually fell according to Eurostat data between 1996 and 2004/5.

A report by Ecotec Consulting (2007) carried out for the European Commission has revealed a shift in job patterns with a decline in technical and maintenance staff (often through outsourcing) and an increase in legal, marketing and sales staff as companies devote more resources to winning customers from other companies. This partly explains the increase in the proportion of women in the industry in some countries, from 24% to 27% in the UK and from 24% to 28% in Sweden, for example.

6.3.2. Postal services

In postal services there is also a strong tendency towards employment reductions since the mid-1990s but the picture is less clear than in electricity. There are countries with a sharp fall in employment, some with a less strong but still significant reduction and at least one country with a substantial increase in employment. Reductions of 20% and more have been recorded in Austria and Sweden (according to Eurostat-SBS data and data from national sources). Germany has experienced a substantial reduction according to national labour force survey data covering the period from 1995 to 2005 (-15%) but an equivalent increase according to Eurostat-SBS

data for the shorter period from 2000 to 2004(+15%).¹⁴ In Belgium employment reduction was somewhat less than 10% and in the UK there is an employment increase of more than 10% (in both cases according to Eurostat-SBS data and data from national sources). For Poland data is only available for the broader post and telecommunication sector but, despite a dramatic increase in telecommunication activities caused by a spread of mobile phones and Internet, employment according to the Polish Central Statistical Office still decreased by 11% between 1996 and 2005.

Table 6.3: Employment change in postal services

	Eurostat-SBS*	National sources**	National sources**
	Yearly averages %	Yearly averages %	Total reduction (1996/7/8-2004/5)
Austria	-3	-2	-15
Belgium	-1	-1	-8
Germany	+3.9	-1.3	-12
Poland***	-1.7	-1.2	-11
Sweden	-2.3	-2.0	-20
UK	+ 2.4	+1.7	12

*Eurostat-SBS: AU 1998-2005; BE 1996-2005; GE 2001-2004; PO 1995-2005; SE 1993-2004; UK 1997-2004.

**National sources: AU Labour Force Survey – 1995-2005; BE: Data Warehouse Social Security - 1997-2004; GE Labour Force Survey – 1995-2005; PO: Central Statistical Office – 1996-2005; SE: Register based labour market statistics – 1995-2006; UK: Annual Business Inquiry -1998-2005.

***Post and telecommunication sector.

In addition to employment cuts, countries for which data is available also show a substantial increase in atypical forms of employment. The largest increase in part-time employment was recorded in Germany. Here the number of part-time workers in postal services has more than doubled since 1995. A lot of the newly created part-time jobs are furthermore marginal part-time positions including only a few hours of work per week. Data from the German post regulator for the German letter market show that while the majority of the workforce employed by the incumbent Deutsche Post AG still has a full-time job (33.3% are part-time and 4.1 marginal part-time), its competitors mainly employs part-time workers (more than 80%) and among them the majority (59.4%) as marginal part-time workers (Brandt/Drews/Schulten 2007). Hence while the total number jobs in the German letter market was more or less stable between 1999 and 2004, the amount of employment measured in full-time-equivalents has actually decreased by 10% over the same period (ibid). Germany is followed by Belgium, where the number of part-time workers has doubled, and the

¹⁴ According to Labour Force Survey data employment still decreased by 3 percent. While the Labour Force Survey shows a persistent downward trend, the Structural Business Survey shows significant fluctuations with substantial increases and significant reductions over the four-year period covered by the data.

UK, where it increased by 45%. In Austria the growth in part-time jobs reached 28%. In Poland the increase in the broader post and telecommunication sectors amounted to 73%.

For Austria and Germany there is also data available for the proportion of self-employment. In Germany the number of self-employed workers in postal services grew by more than two and a half times between 1995 and 2005. In Austria the number increased by four and a half times over the same period. Despite the dramatic increase in part-time jobs and self-employment, the resulting proportion of atypical forms of employment lies within the range of the proportion for the national economies pointing to an adjustment of public sector employment relations to private sector conditions (Schulten/Brandt/Hermann 2008).

Table 6.4: Part-time and self-employment change (%) in postal services

%	Part-time employment		Self-employment	
	Increase 1995/6-2004/5	Change per year	Increase 1995-2005	Change per year
Austria	28	2.5	350	35.0
Belgium	50	7.1		
Germany	109	10.9	171	17.1
Poland*	73	8.1		
UK	45	6.4		

Source: Austria & Germany: Labour Force Survey; Belgium: Data Warehouse Social Security; Poland: Central Statistical Office (Employment in National Economy) UK: Annual Business Inquiry. *Data for Poland refers to the Post and telecommunications sector.

6.3.3. Local public transport

In contrast to electricity and postal services, employment in local public transport has tended to show increases over the past ten years. According to Eurostat data, yearly employment growth since the mid 1990s was between 2% and 4.5%;¹⁵ according to national data sources, the increase is somewhat smaller, ranging from 0% to 3.5%.¹⁶ The national data sources also reveal a major increase in part-time employment. The number of part-time employees doubled in Austria and Germany and part-time growth was 37% in Belgium.¹⁷ However, in all countries the level of part-time working as a proportion of total public transport employment is still low compared to the national average level.

¹⁵ Austria 1995-2006; Belgium 1995-2005; Germany 2001-2005; Sweden 1996-2004; UK 1998-2005.

¹⁶ Austria 1995-2006; Belgium 1997-2004; Germany 1995-2005; Sweden 1995-2006; UK 1998-2005.

¹⁷ For time periods covered by national data see footnote 7.

6.3.4. Health care/hospitals

As in local public transport, employment growth in health care and social work has generally been positive, ranging from 17% to 36% since the mid-1990s. The exceptions are Sweden, where employment increased only gradually in the past ten years, and Poland, where it fell by 35% over the same period. However, if we look at national data on hospital employment, the numbers were more or less stable in Austria while they declined substantially in Sweden (-18% between 1995 and 2005) and significantly in Germany (-7% between 1995 and 2005) and Poland (-6% between 2001 and 2005).

The share of part-time work in health care and social work ranges between 20% to 50% of total employment across the six countries and is therefore not only much higher than in the other three sectors looked at but in several countries also lies above the national averages. The exception again is Poland, where part-time work is still relatively rare. Self-employment grew rapidly in Austria, moderately in the UK, Germany and in Poland, while in Sweden and Belgium it has remained on a low level. Temporary employment is highest in Sweden and Germany; with Poland starting to catch up in recent years. Temporary employment in the health and social work sectors of Belgium, UK and Austria, in contrast, is relatively low and stable.

6.4. Drivers of employment creation

There are many drivers of employment growth, and while outsourcing has certainly had an impact on the employment structure in public services, the positive employment effects of resulting lower input prices on the wider economy are difficult to prove. There are several reasons for this.

First because, rather than falling steadily and uniformly in response to liberalisation and privatisation, energy prices - a key ingredient of consumer prices - have fluctuated significantly over the past ten years. So while there may have been savings for large customers and for small enterprises and some private households, electricity prices have also increased in part as a result of the rent taking consequences of liberalisation and privatisation. The positive impact of lower prices for large costumers can thus be offset through many private households having less money to spend, thereby rendering neutral the net effect on employment.

Second, there are many other factors that have an impact on employment levels aside from liberalisation and privatisation, including general economic growth, the impact of new technology, and political decisions at national and European level and regulatory developments. The impact of new technology is particular important. This has been especially true of electricity and postal services, but also in local public transport and hospitals, where technological innovation has enabled employers to save jobs. It is particularly difficult to disentangle the impact of new technologies and the impact of liberalisation and privatisation in the sectors studied here.

We cannot therefore attribute all the employment losses recorded in some of the sectors under investigation to liberalisation and privatisation (we would need sufficiently long data from before and after liberalisation and privatisation to get a

clearer picture). We can, however, conclude that liberalisation and privatisation in these sectors have certainly not led to employment growth as argued by liberalisation and privatisation supporters.

6.5. Drivers of labour productivity

One argument for privatisation and liberalisation is that this marketisation drives rising productivity as a result of the combination of the discipline of competitive markets with the pressures on profit-making organisations to deliver ever greater returns to their shareholders. Privatisation and liberalisation involve a shift in priorities with cost reduction and profit-maximisation emerging as central goals, in contrast to a set of broader social and political objectives that might characterise nationalised companies, municipally-owned and run services or those run by other public and/or voluntary sector organisations. In the short term, then, the impact of privatisation and/or liberalisation is likely to increase gross value added and labour productivity as former publicly owned providers are given more freedom over their human resource policies as well as how, where and when they finance new investments.¹⁸

Productivity can be measured in a number of ways. It is the level of output produced for a given level of inputs. Labour productivity is one of the most common ways of looking at productivity, analysing changes in output in terms of labour inputs. The definition of output itself can vary. In the PIQUE report on productivity the focus was on the internationally comparable data developed by the European Commission-financed EU KLEMS project where output is defined as gross value added. Labour productivity in a given sector is therefore the level of gross value added divided by the number of hours worked.

Labour productivity levels vary, then, according to the movement of the two variables: the level of value added and the number of hours or size of the workforce. Rising labour productivity can be the result of higher outputs from the same number of workers working the same number of hours, or of the same level of outputs being generated by workers working a lesser number of hours.

The major reductions in employment in the electricity sector thus increased labour productivity in the short term. It certainly appears that this labour shedding was enabled by the marketisation process. However, what is more interesting is to ask whether private ownership and open markets produced an appreciable shift in productivity trends over the medium and longer term. If this were so, a further question would then arise as to whether any shift in productivity growth were enough to compensate for what might be seen as any potential negative outcomes in terms of employment levels, working conditions and quality of service.

The EU KLEMS data used in this labour productivity analysis cover electricity (or electricity, gas and water) and the broader industrial sectors of inland transport and

¹⁸ Value added refers to the additional value created in the production process.

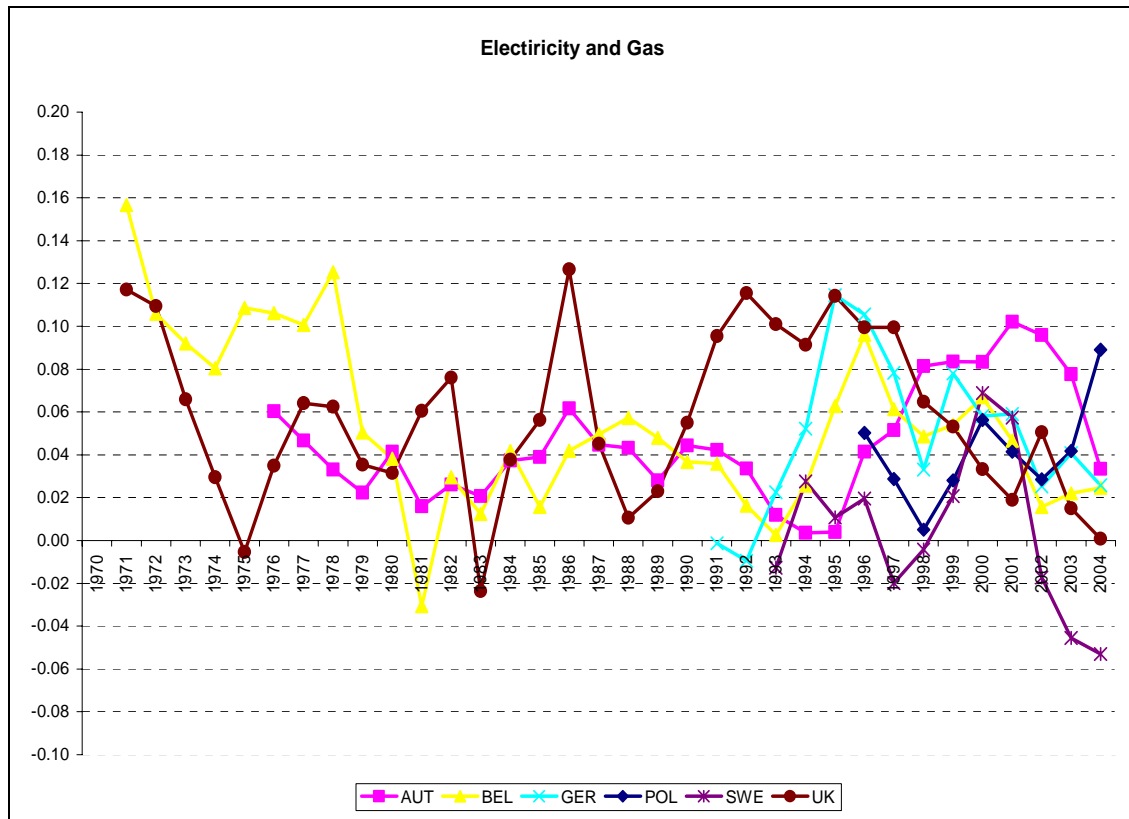
post and telecommunications. Although these latter two are wider than the focus of the PIQUE project, they are the best available in terms of long-term, comparable statistics and do provide some indication of developments in as far as the aim was to try to identify significant shifts in productivity growth, shifts that would be expected to register in data for the broader industrial sectors.

In the electricity and gas sectors in the six countries average annual labour productivity increases between 5-6% over the three decades for which data is available. It is important to bear in mind that the electricity sector has seen some of the more significant changes in technology of the sectors covered in the PIQUE study, although not in all countries. In Poland there has been virtually no shift away from coal-fired electricity production; while there have been some changes, in the balance of fuel sources in Austria, hydro-electric power is still the main source. In contrast all the other countries have seen major shifts in production with Sweden, Germany and Belgium all increasing significantly the share of nuclear power in electricity production from the mid-1970s.

The high Belgian labour productivity rates in the 1970s are explained by the shift from coal to nuclear. These major changes will have contributed to higher productivity in these countries over the period but all pre-date any moves towards privatisation or liberalisation. However, in the UK the big technological change followed privatisation as companies chose to concentrate new investment in gas-fuelled power stations and the share of production coming from gas rose from less than 2% in 1990 to 35.5% in 2006. While a publicly-owned industry might have moved in the same direction, the speed and scale of change in the UK were almost certainly enabled by investment decisions being made in a privatised, competitive environment. In the UK the strongly cyclical variations in labour productivity up to 1989 reflected wider national economic performance, investment shifts and industrial conflicts while the higher levels in the 1990s reflect the shift from coal to gas in the context of marketisation.

In Austria and Sweden, in contrast, the cases of higher and lower than the 'norm' productivity since roughly 1999-2000 both appear to follow or accompany the marketisation process. In Poland this is also the case. A provisional conclusion here is that technological changes to the sector have had the biggest impacts on labour productivity and that an examination of the comparative productivity rates suggests little support for the universal thesis that marketisation itself has helped drive longer term higher productivity.

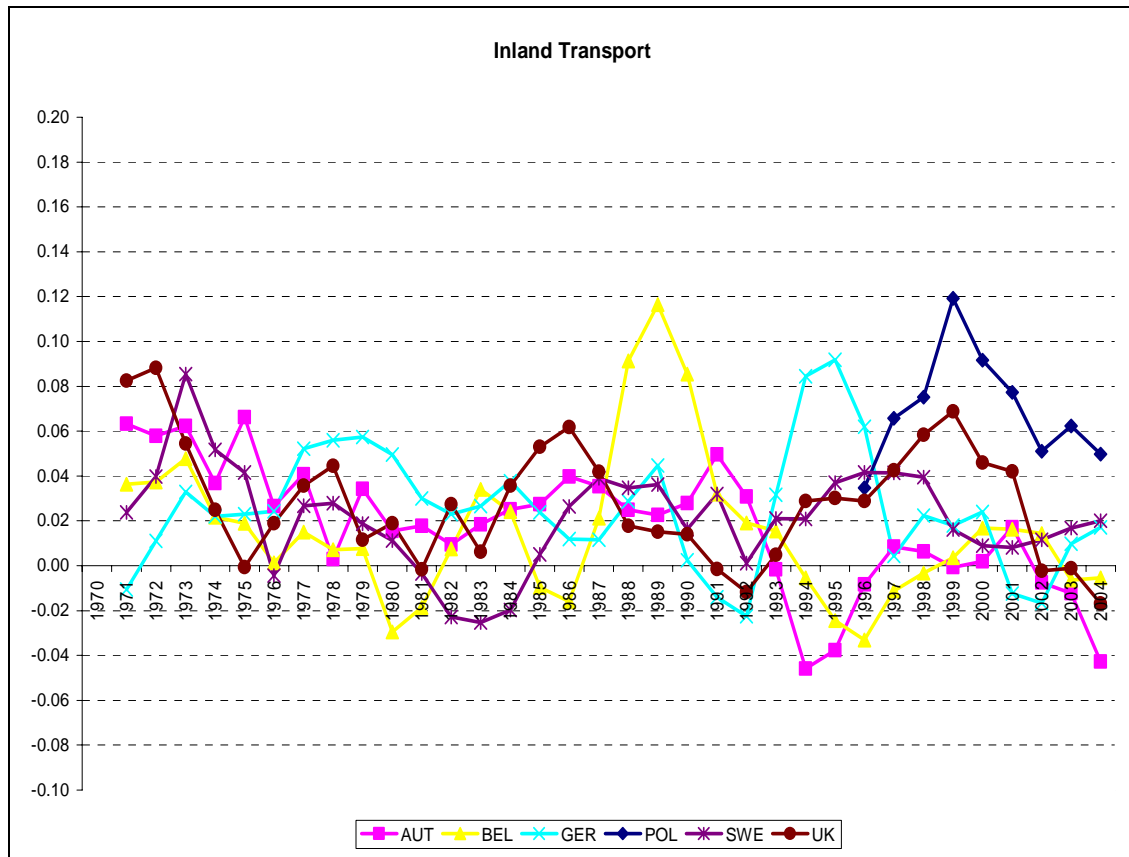
Figure 6.1: Comparative labour productivity in the electricity and gas sector, 1971-2004



AUT= Austria, BEL= Belgium, GER=Germany, POL=Poland, SWE=Sweden, UK= United Kingdom. Calculations based on EU KLEMS (2007).

In inland transport annual comparative labour productivity rates in 1971 ranged between -0.1% and +8% and in 2004 between -0.4% and +5%. The overall trend is thus downwards over time. In this sector, too, it is quite difficult to read out the different contributions of local bus and underground public transport services from those of the railways, road haulage and the growing taxi industry. The brief 'above the trend' exceptions of Belgium from 1987 to 1991, Germany from 1993 to 1996 and the UK from 1996 to 2001 occurred many years before commodification in the case of Belgium, many years afterwards in the case of the UK, and were only located close to a commodification transition moment in Germany. While in Austria the below the trend results of 1993 to 1996 preceded its transition moment by several years. Here too the evidence that commodification and the different forms of resource allocation it involves have played a role in raising long-term labour productivity above the international trend is non-existent or weak.

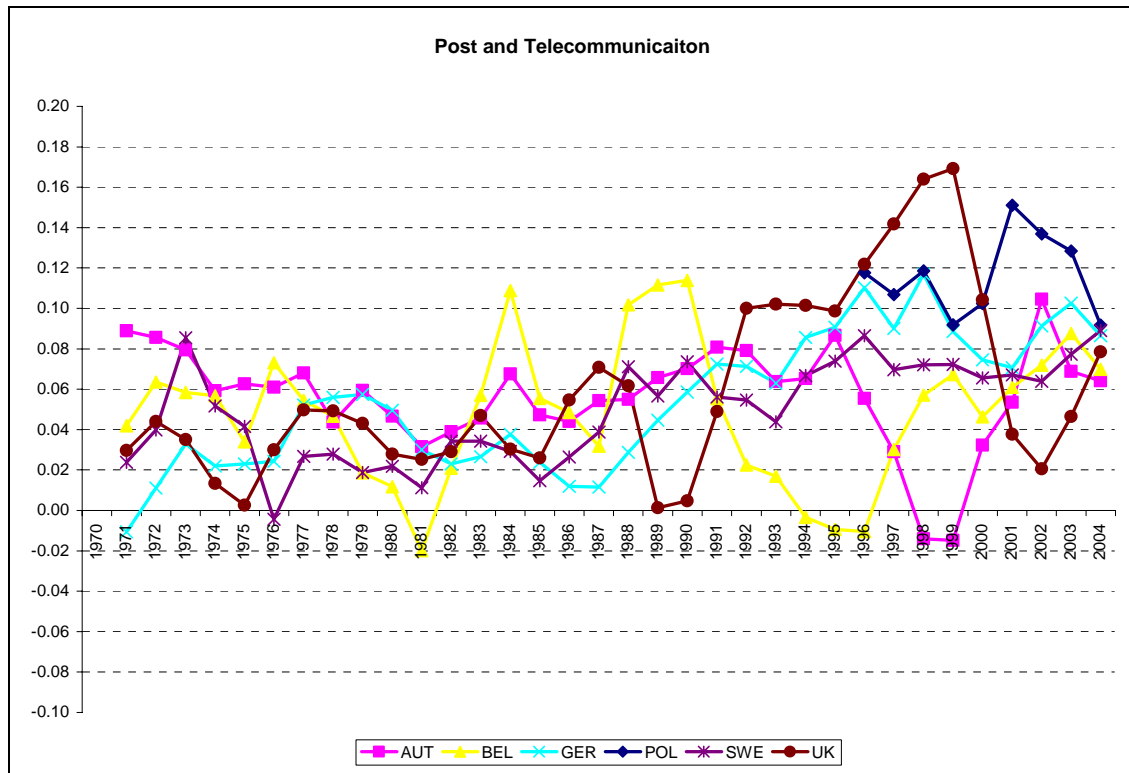
Figure 6.2: Comparative labour productivity in the Inland Transport sector, 1971-2004



AUT= Austria, BEL= Belgium, GER=Germany, POL=Poland, SWE=Sweden, UK= United Kingdom. Calculations based on EU KLEMS (2007).

In the post and telecommunications sector there was a fairly stable level of annual labour productivity increases at around 4% in the 1970s and 1980s, but then in the following fifteen years levels generally moved upwards to roughly 8% a year. These general increases can be assumed to be largely the result of the revolution in telecommunications that dramatically increased that part of the sector's revenues. Belgian productivity rates both exceeded the trend in 1988-1991 and fell well below it from 1992 to 1998. In the UK above the trend results from 1991 to 2000 also appear to be linked to developments in telecommunications rather than in the postal service. Yet by the end of the period, almost regardless of the different national pathways towards commodification in both telecoms and postal services, the levels of annual labour productivity appear to converge. A tentative conclusion here is that labour productivity in this sector is significantly driven by common, globalised technologies rather than by the processes of commodification.

Figure 6.3: Comparative labour productivity in the post and telecommunications sector, 1971-2004

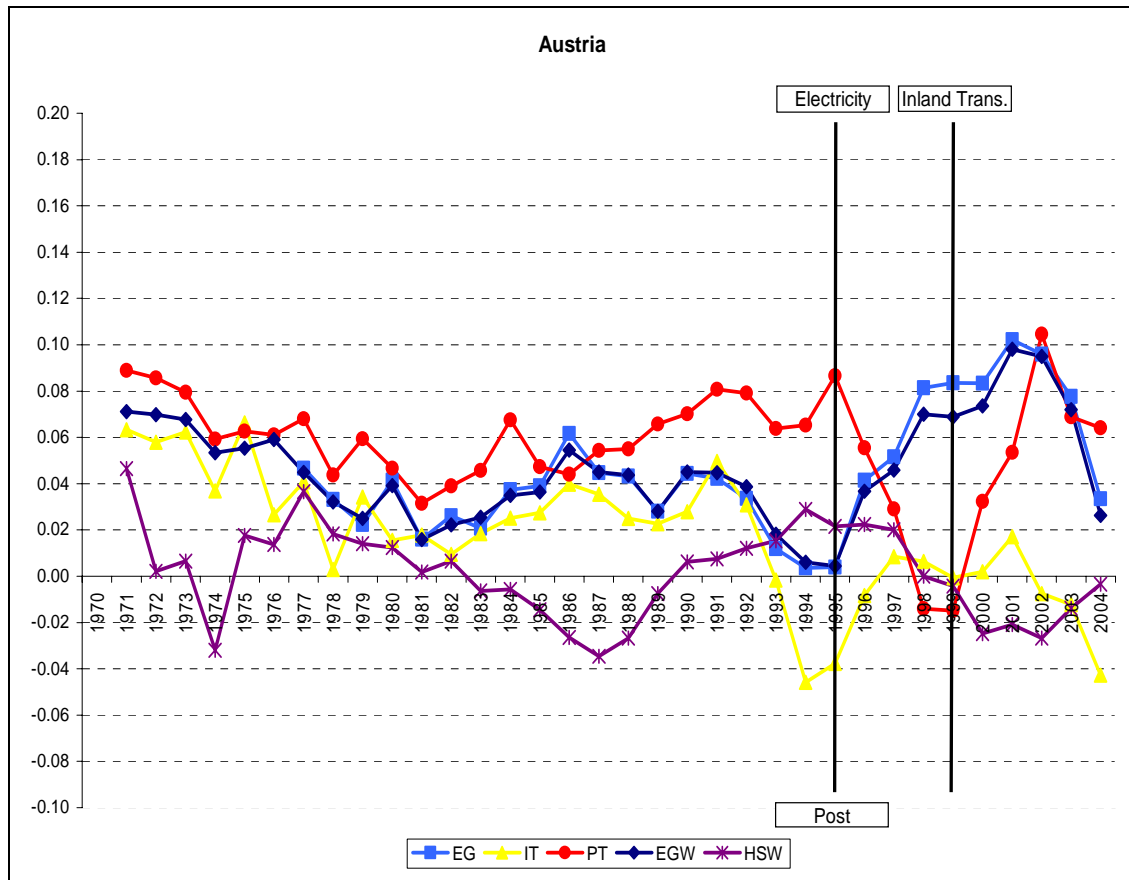


AUT= Austria, BEL= Belgium, GER=Germany, POL=Poland, SWE=Sweden, UK= United Kingdom. Calculations based on EU KLEMS (2007).

Reviewing the evidence by country over the long term (from 1970) raises doubts about clear differences between 'before and after' marketisation periods. In Austria the annual rate of increase in labour productivity (measured by the real value added per hour worked) in all four sectors was higher in 1971 (1977 start date for electricity and gas) than it was in 2004. In the electricity sector, however, falling productivity levels from 1986 turned around between 1995 and 2001 before plunging again between then and 2004. In post and telecommunications, in contrast, the same 1995 commodification transition moment was followed by a sharp decline in productivity to 1999 and then an equally sharp increase before settling close to the historic level of between 6% and 8% per year in 2003 and 2004. Labour productivity in inland transport appears to have declined nearly continuously up to the transition moment of 1999, and then after a brief recovery to have resumed its downward direction. The labour productivity levels in the health and social work sector¹⁹ were generally lower than in the three others, and hovered around no net increase throughout the period.

¹⁹ Labour productivity is much more difficult to assess in health and social work across all countries because of the difficulties in establishing estimates of value added that are independent of the inputs. Annual productivity changes are thus almost always shown at or close to 0. We will not, therefore, comment separately upon this sector in the other different countries described below.

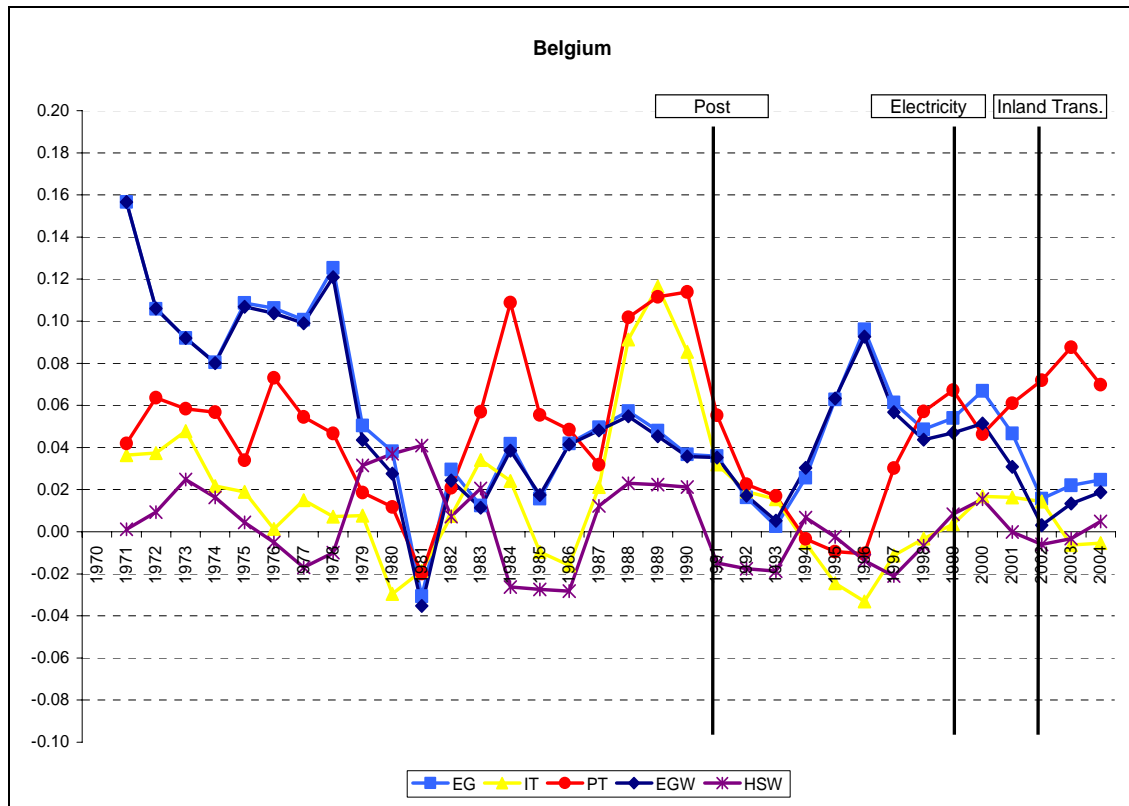
Figure 6.4: Evolution of Austrian sector labour productivity, 1971-2004 (three-year averages)



EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications, EGW = Electricity, Gas and Water Supply, NSW= Health and Social Work. Authors' calculations from EU KLEMS (2007).

In Belgium the long run view shows that while three sectors display lower annual productivity increases at the end of the period than at the beginning, the post and telecommunications sector ends the thirty-year period somewhat higher. The very high levels of electricity and gas productivity at the start of the period are clearly linked to the transition to nuclear power, but the commodification transition year, 1999, does not appear to have (at least to date) triggered a trend change. In post and telecommunications a period of rising labour productivity prior to the transition moment of 1991 was followed by a decline before a nearly continuous recovery set in from 1996. In inland transport the very limited commodification initiated in 2002 is perhaps too recent to expect any evidence of change in long-term trends and there is not any.

Figure 6.5: Evolution of Belgian sector labour productivity, 1971-2004 (three-year averages)

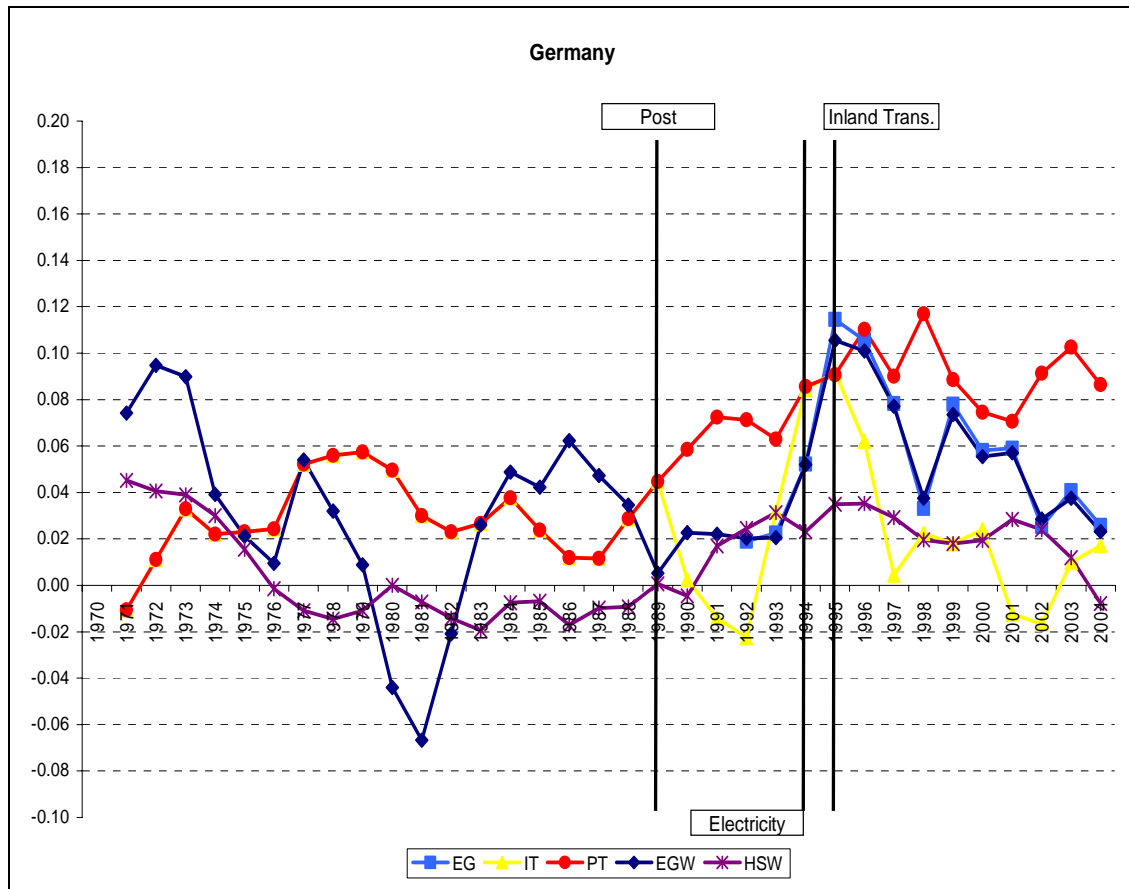


EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications, EGW = Electricity, Gas and Water Supply, HSW= Health and Social Work. Authors' calculations from EU KLEMS (2007).

In Germany²⁰ the overall levels of labour productivity in the four target sectors show a similar pattern to that of Belgium: annual labour productivity growth is higher at the end of the period in post and telecommunications, while in the other three sectors it is lower. In electricity and gas rising productivity from 1992 remains at or above the commodification transition period 5% level until 2001 before falling to between 2% and 4% from 2002. In post and telecommunications, in contrast, annual productivity increases were continuously above the 1990 transition year level right through until the series end in 2004. In inland transport a rise in annual labour productivity up to the 1995 transition year was followed by a major decline and a recent small recovery.

²⁰ The data series only go for post-unification Germany to 1990 for inland transport and to 1992 for electricity and gas. The data before 1990 refers to West Germany alone.

Figure 6.6: Evolution of German sector labour productivity, 1971-2004 (three-year averages)

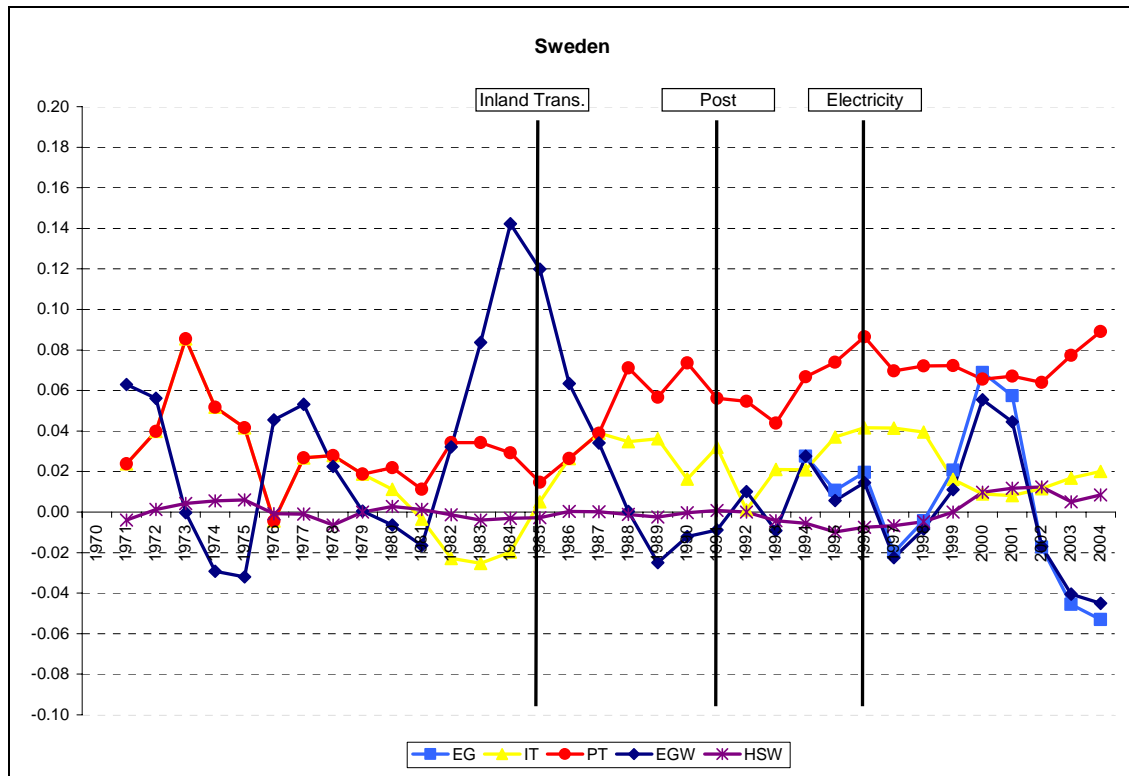


EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications, EGW = Electricity, Gas and Water Supply, HSW= Health and Social Work. Authors' calculations from EU KLEMS (2007).

The much shorter timescale (from 1997) for Polish data makes it impossible to draw any firm conclusions across the three sectors, with only electricity looking to be on an upward trend by the end of the period.

In Sweden the thirty year overview also suggests a rising annual labour productivity trend in post and telecommunications with similar or slightly lower rates between the beginning and the end of the period in the other sectors. In electricity and gas the commodification transition year 1996 was followed by strong productivity increases between 1999 and 2001, but then by falling labour productivity between 2002 and 2004. In post and telecommunications, by the transition year of 1991 annual labour productivity growth had nearly tripled from around 2% a year in the ten years before 1986. Thereafter it stayed above 6% from 1994 onwards. In inland transport the 1985 commodification transition period heralded a 20-year period in which annual labour productivity increases ranged between nought and 4% a year, compared to the 1981-1984 years when labour productivity actually fell.

Figure 6.7: Evolution of Swedish sector labour productivity, 1971-2004 (three-year averages)

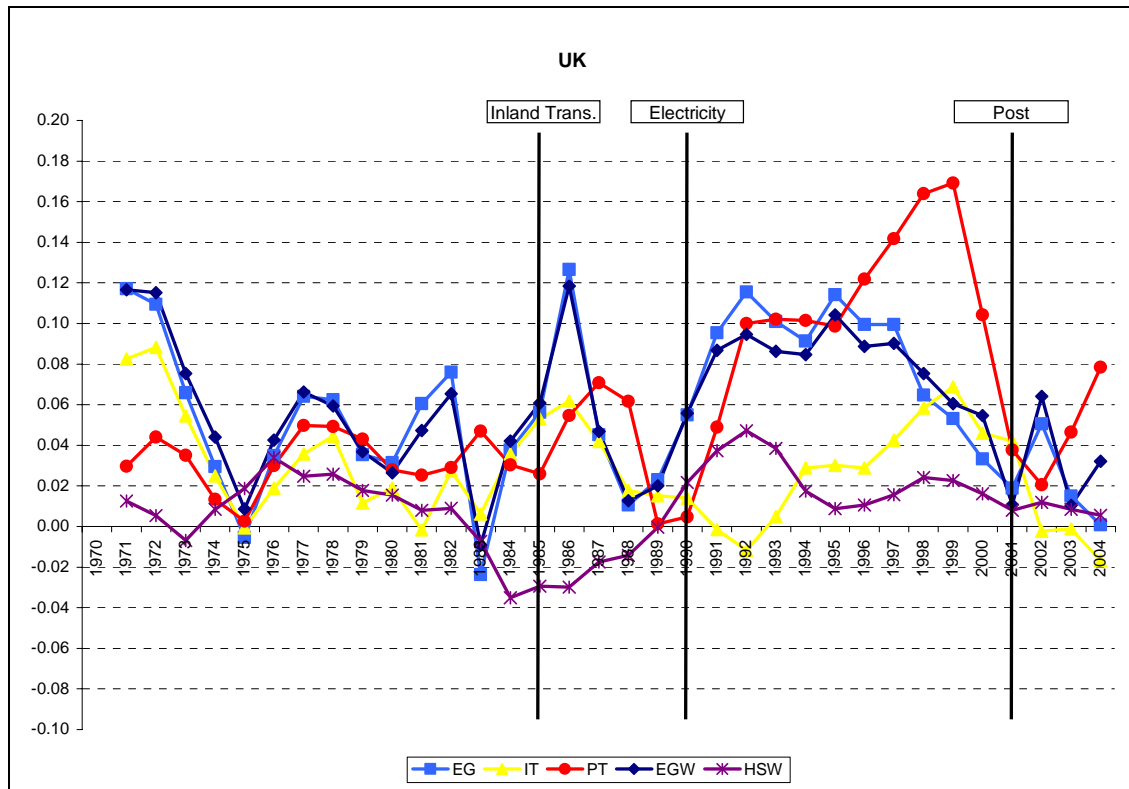


EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications, EGW = Electricity, Gas and Water Supply, NSW= Health and Social Work. Authors' calculations from EU KLEMS (2007).

In the UK the levels of annual labour productivity increase in the four sectors reveal the same pattern: with the exception of post and telecommunications, the other sectors display higher annual rates of productivity growth at the beginning of the period than they do at the end. In electricity and gas the 10% per year levels of the early 1970s are achieved again immediately following the commodification transition year of 1990, but then from 1998 fall back to the 1975-1990 average 5% level. In post and telecommunications an average productivity rise of around 4% per year prior to 1989 is followed in the decade from 1991 by levels often more than three times as high.²¹ The postal services commodification transition year of 2001 follows two years of declining sector labour productivity, and in turn is followed by a recovery of productivity between 2002 and 2004. Local public transport's moments of commodification are shown in 1985, and there is no clear change in labour productivity before and after that. However from 1994 there is a period in which labour productivity in the sector recovers the levels of the 1970s before falling back again in the early 2000s.

²¹ Driven largely by job-shedding in British Telecommunications PLC, but also by the increasing value of the market. The decisive commodification moment in UK telecoms occurred in 1984 when BT was privatised.

Figure 6.8: Evolution of UK sector labour productivity, 1971-2004 (three-year averages)



EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications, EGW = Electricity, Gas and Water Supply, HSW= Health and Social Work. Authors' calculations from EU KLEMS (2007).

6.6. Decomposing labour productivity

Our final review of the evidence involves decomposing the identified labour productivity into its two component parts: an increase in value added or a decrease in hours worked. How and why productivity increases is, of course, just as important as the magnitude of any increase. A common method of measuring productivity is to divide output by the size of inputs to find the amount of output produced by each unit of inputs. We have defined labour productivity above, therefore, as the amount of value added produced by the labour input measured as the number of worked hours spent in productive activity. Labour productivity, then, is determined by both output and labour input: an increase in output will increase productivity, while a rise in employment will lower productivity. It is therefore possible to have a net productivity increase/decrease without a change in the volume of labour (and number of hours worked). To examine the sources of productivity change it is therefore necessary to decompose productivity growth into its two component parts.

Our detailed analysis of productivity decomposition is provided in Table 6.5 below. This compares the growth of productivity, value added and employment in the pre- and post-privatisation/liberalisation periods. In some countries and sectors it is difficult to identify precise marketisation transition years, so, as with Figure 6.1 -

Figure 6.8 we have heuristically selected the most relevant date for privatisation or liberalisation in order to be able to compare the pre- and post-privatisation/liberalisation (pre-P/L and post-P/L) periods. The figures in Table 6.5 are calculated by taking the mean values of variables of interest in the pre- and the post-P/L periods. The post-privatisation or -liberalisation period clearly runs up to the end of the data series, so to make the comparison more coherent we have selected an equal number of years prior to the marketisation transition year on which to base the pre-P/L period.

In Austria both the electricity and gas and post and telecommunications sectors showed productivity increases before and after the designated commodification year. In the pre-commodification period, almost 100% of productivity growth recorded was derived from growth in value added. In the post-commodification period, on the other hand, 20% of the productivity growth has come from falling employment. In this sector labour productivity growth is positive for virtually the whole of the period from 1976 to 2003 with only two years of nil growth in 1977 and 1981. There was no sharp increase in labour productivity growth, however, until the mid-1990s, when such an increase coincided with the only sustained period of employment decline over the period. This fall in employment could be associated with the opening of the electricity market to competition but the available data is for too short a period to provide conclusive evidence of an upward shift in productivity growth.

The figures for the Austrian post and telecoms sector are similar. In the pre-commodification period, while productivity growth resulted wholly from value added growth, in the post-commodification period employment cuts contributed 19% of the total 53% rise in labour productivity, roughly 40% of productivity growth. The Post and Telecommunications sector shows a sustained growth in value added and labour productivity right up until 1998, when there are two years of nil growth in value added and labour productivity declines as employment increases. Value added growth subsequently recovers while labour productivity growth shoots up as employee numbers are cut more sharply than any other time in the 30-year period.

In Belgium positive productivity and negative employment growth were recorded in both pre- and post-commodification periods in electricity and gas. However, while value added was nearly the sole cause of productivity gains before 1995, subsequent employment cuts generated over 70% of productivity growth.

In Germany in the period before 1994 employment in the Electricity, Gas and Water sector remained nearly stable while labour productivity was generated by increased value added. Thereafter, in contrast, job cuts in the broader sector made up half of the 53% rise in labour productivity, and the same proportion of the slightly larger 56% rise in labour productivity in electricity and gas on their own. A similar picture occurs in both inland transport and post and telecommunications: before their respective commodification years there was growth in both labour productivity and employment, while subsequent job cuts made up 100% of labour productivity gains in inland transport and 25% of gains in post and telecoms. Value added growth in post and telecoms shows a sustained period of growth towards the end of the period – at

or around 6% from 1998 while labour productivity growth has stayed above 4% since 1990 and reached 10% in the middle of the decade, when it coincided with several years of employment decline.

In Poland, where comparable data is only available after 1995, more than 50%, 30% and 10% of productivity in Electricity and Gas, Inland Transport, and Post and Telecommunications industries respectively were due to sector employment reductions.

In Sweden the picture in the electricity, gas and water sector is one of substantial labour productivity growth driven largely by labour force reductions in the period prior to 1996, followed by employment increases that are largely responsible for falls in labour productivity, since value added also declines slightly. In Post and Telecommunications growth in labour productivity was at or above 4% a year for most of the 30-year period, with notable falls below this level only in 1976 and 1992-93. Labour productivity growth has been at or above 5% since 1997, and the cuts in employment that were an important factor in this growth in the early 1990s and again at the end of the period, contributed roughly one quarter of this in the post-commodification period.

In the UK the electricity and gas and the inland transport sectors recorded positive growth rates in productivity and negative growth rates in employment both before and after commodification. In the Electricity and Gas sector the contribution of employment decreases to productivity growth was 50% before the commodification year and 64% afterwards. Its annual growth in value added is steady after 1990, but mainly at a low level – around 2% ranging up to 4%. This compares to significant fluctuations in the pre-1990 period. Labour productivity growth is at a higher level after 1990 (averaging 6.7% a year compared to 3.9% between 1975 and 1989) largely as a result of sharp falls in employee numbers (exceeding 4% a year in the seven years 1991-1997).

What conclusion can we draw from these labour productivity decomposition analyses? Our hypothesis was that if the new methods of resource allocation within a sector that had experienced marketisation were stimulating increased efficiencies, then they would increase the output or service provision at a faster rate than before commodification. What we find is that out of the fifteen sectors in five countries (excluding Poland, which does not have 'before commodification' data with which to make the comparison), just one third (five) display higher value added growth in the post-commodification period, while over two thirds (eleven) show higher levels of employment decrease.

We can see, therefore, that the main driver of post-marketisation labour productivity increases was a relative employment decrease, rather than an increase in the long-term value added created within the sector. This finding corresponds with the decline in employment presented in the first part of this paper.

Table 6.5: Labour productivity decomposition (%) before and after key commodification dates

Country												
				Pre-Commodification				Post-Commodification				
		Sector		Period	L/Pro d	V/Add	EMP		Period	L/Pro d	V/Add	EM P
Austria		EG		1985-94	33	34	1		1995-04	61	47	-14
		IT		1993-98	-23	-17	6		1999-04	-6	0	5
		PT		1992-97	61	59	-3		1998-04	53	33	-19
Belgium		EG		1993-98	40	28	-12		1999-04	45	13	-32
		IT		1999-01	14	46	32		2002-04	-24	-22	2
		PT		1977-90	55	50	-5		1991-04	38	37	-1
Germany		EGW		1983-93	30	30	-1		1994-04	53	27	-26
		EG		1983-93	n.a.	n.a.	n.a.		1994-04	56	28	-28
		IT		1985-94	10	15	5		1995-04	14	0	-14
		PT		1975-88	21	30	9		1989-04	70	52	-18
Poland		EG			n.a.	n.a.	n.a.			41	16	-26
		IT			n.a.	n.a.	n.a.			85	53	-32
		PT			n.a.	n.a.	n.a.			110	97	-13
Sweden		EGW		1987-95	24	5	-19		1996-04	-11	-2	9
		IT		1971-84	19	27	8		1985-04	22	21	-1
		PT		1977-90	42	51	9		1991-04	68	50	-18
UK		EG		1975-89	39	20	-19		1990-04	67	24	-43
		IT		1971-84	39	14	-25		1985-04	26	21	-5
		PT		1997-00	143	173	31		2001-04	35	32	-3

Note: Period shows the years for which the mean growth levels of labour productivity, value added, and employment are calculated and shown as percentage change.

Legend: L/Prod = Labour productivity, V/Add = Value added, and EMP = Employment.

Industries: EGW= Electricity, Gas, and Water Supply, EG= Electricity and Gas, IT= Inland Transport, PT= Post and Telecommunications.

Source: Authors' calculations based on EU KLEMS (2007).

6.7. Conclusions

The commercialisation, liberalisation and privatisation or marketisation of public services aims to introduce the benefits of competition to the resource allocation process. However, there are some major doubts as to the feasibility of dismantling monopoly public services whose characteristics include the necessity to provide national services. Evidence from the UK electricity sector, where we noted that privatisation went furthest and most rapidly, is that after an initial expansion from one provider to dozens, a major concentration process has ensued. These market reforms did not automatically result in a sustainable competitive market structure. Out of the 70 British companies in the supply segment, only six have a market share of more than 5% while three of them supply almost 65% of the electricity consumed in the UK.

Thus although in this case formal liberalisation and privatisation processes were completed, this did not necessarily lead towards a significantly more competitive market structure. More generally, across most of the sectors and countries studied we conclude that these market reforms have not uniformly delivered the transparent competitive environments that the textbook examples suggest are necessary for the consumer to maximise benefits from the transition.

In addition to different outcomes with respect to the extent of private ownership and competitive market structures, liberalisation and privatisation processes also vary in time. For productivity it was particularly important to get an indication of medium and long-term trends to see to what extent changes at or around the time of liberalisation and/or privatisation could be identified as marking a break in those trends. This approach was also important for establishing whether the impact of private ownership and/or increased competition had shifted industries onto higher growth trends and had not simply produced short-term fluctuations in productivity. In this context our research revealed a paucity of publicly available datasets that would be required to validate the claims of significant public benefits of marketisation.

There is clearly a significant adjustment process here with a social cost to privatisation and liberalisation that we cannot assume is simply compensated for by increases in employment across the wider economy, particularly as it is difficult to prove the theory that more competition in one sector can lead to positive employment effects in other sectors. Any general claims about the positive economic effects of privatisation and liberalisation should be tempered with an acknowledgement of these social costs and a better attempt made at a broader evaluation of these processes that takes account of a wider range of factors and assesses developments over the medium to long term and not just in the light of short-term radical restructuring.

The balance of evidence suggests that liberalisation and privatisation have been primarily associated with employment reductions rather than with employment creation and that, at the same time, employment within the target sectors has become increasingly part-time, often having greater recourse than when they were publicly delivered services to self-employed, and perhaps also temporary, workers. Further, we could not find evidence suggesting that marketisation itself has driven any significant long-term upward shifts in the levels of added value produced in the

target sectors. Instead, it appears that the drivers of increased added value primarily arise by changes in technologies and the rate of growth (and demand level) in the overall economy. Yet if liberalisation and privatisation had a significant impact on productivity, the more efficient resource allocations mainly stem from job reductions.

Where evidence existed or could be inferred on productivity it was not conclusive. It shows that the implementation of privatisation and liberalisation does not automatically lead to marked shifts in long-term productivity trends although there are cases, such as electricity privatisation and liberalisation in the UK, where the data do reveal significant short-term changes. The evidence from other countries and sectors is less compelling but this may also be due to the fact that the processes of privatisation and liberalisation have not been carried out so comprehensively or there is a very limited period of time over which to assess their impact.

This means that generalised statements about the potential positive impacts of liberalisation on productivity should be strongly qualified not only in relation to the different effects that might arise from variations in country characteristics but also in as far as any real productivity changes can be disentangled from simple cuts in employee numbers and/or technological change. It may also be that changes in employment might be the more immediate results of organisations reacting to a perceived need to cut costs as a short-term response to increased competition and do not reflect the longer-term need to provide effective and efficient services with a well-trained and well-rewarded workforce. This is a potential contradiction in employer strategies that will be explored in more detail in the company case studies that form another part of the PIQUE project.

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7. LIBERALISING SERVICES OF GENERAL ECONOMIC INTEREST: THE CITIZEN-USER PERSPECTIVE IN SIX EU COUNTRIES

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This chapter summarises the main results of a citizen-users survey on postal services, electricity supply and local public transport carried out in six EU countries. It is based on the full-length report “Liberalisation in services of general economic interest - A bottom up citizens' perspective: Analysis of the PIQUE survey”.

7.1. Introduction

7.1.1. Marketisation and the ‘choice’ paradigm

For the past twenty years, the European Union, but also many national governments, have embraced the belief that the dynamics of competition – sometimes referred to as the ‘disciplines of the marketplace’ or ‘marketisation’ – will improve quality and efficiency in public services. Since the second half of the 1980s, a number of public service sectors have gradually been opened up to competition following a series of European Directives, which pushed for this kind of liberalisation. Of the sectors included in the survey, the electricity sector has been fully liberalised and for postal services the remaining barriers for new competitors will be lifted in 2011 (Poland 2013). In local public transport and the hospital sector the situation is more varied.

The European agenda for liberalisation has been accompanied with a strong trend towards privatisation at the national level (Hermann/Verhoest 2008). The EU introduced even new terms such as ‘services of general interest’ or ‘services of general economic interest’, to replace the notion of ‘public services’. Perhaps this move signifies more than just a change of names, since the change has been accompanied by a new set of policies towards public services. The European policy perspective on services of general economic interest (SGEI) can briefly be summarised with the following statement: ‘We do it to fulfil citizens’ demands with an open and competitive market as main instrument’. Hence it is about ‘serving the public’. This line of policy is of course what is defined as one of the key elements of new public management, namely the promotion of consumer sovereignty and choice in the provision of public services.

7.1.2. Survey design

This European bottom-up policy perspective of ‘the happy citizen-consumer by regulated market solutions’ in relation to services of general economic interest formed the conceptual framework of a citizens’ survey carried out in six countries

(Austria, Belgium, Germany, Poland, Sweden and United Kingdom) on three public services (postal services, local public transport, electricity supply).²²

The following main research questions were tackled in the survey:

- *Still serving the public?* The PIQUE survey investigated citizens' and users' satisfaction with the services and wanted to shed light on what kind of service improvements users wanted.
In a first step a general questions about user satisfaction with price and quality were surveyed. In a second step this question about user satisfaction was deepened by analysing a) which quality dimensions are important in this general attitude of satisfaction, b) how these dimensions are rated negatively or positively, and c) how (possible) quality problems in this regard lead to complaint behaviour on the part of the citizens.
- *Public support for policies?* The second part of the survey had a different focus. Here the policy approach of marketisation and consumerism, as promoted by the EU (and others), was tested by exploring how citizens' perceive these changes. The recent Eurobarometer (and other international) surveys "do not teach us much about citizens' attitudes towards the baseline values of these services and are restricted to perceptions of performance and satisfaction". The second part of the survey thus attempted to close this gap by analysing citizens' attitudes towards liberalisation, privatisation and universal service obligations. In addition the data collected by the survey was analysed with regard to individual preferences. Based on previous work from Bouckaert et al. (2003), we make a distinction between 'performance' and 'identity' theories. While the first approach refers to the experience with actual performance, the latter stresses societal factors, ideological beliefs and political values.
- *Consumer choice?* In its 'marketisation' and 'liberalisation' approach to public services, the European Union assumes that citizens act as consumers. "Choice" is introduced partly as a response to the new attitudes adopted by modern citizen-consumers, partly as a means to force suppliers to improve service performance. In short, choice in public services is understood as consumer preference and not as public services enabling citizens to make choices about their lives. Consumer values at least partly replaced public values or social objectives as a policy paradigm. Results are presented about whether citizens want to choose between public services offered by competing providers or not.

7.1.3. Methodological note

A citizens' survey was organised by telephone in the winter of 2007-2008. Not only users of the particular service were questioned. The sample population included all private persons aged between 18 and 79 living in a private household in one of the included countries; with furthermore a land-line telephone number and the

²² The survey also included a limited set of questions on hospitals, which are not taken into consideration in this policy paper.

capability to express themselves in the language of the questionnaire. An additional pre-survey representativeness measure consisted of quota. These were assigned according to gender, age, education, and urban-rural area. As a result in each country at least 1,000 respondents were interviewed based on this random sampling.

7.2. Still serving the public?

As part of the horizontal evaluations of the EU policies on SGEI, citizen-consumer satisfaction opinions were collected in a series of Eurobarometer studies between 1997 and 2007. The first goal of the PIQUE survey was to deepen this Eurobarometer approach.

7.2.1. Satisfaction with prices and service quality

As a starting point, we mapped the general satisfaction on price and quality for each of the services.

Table 7.1: Satisfaction with the PIQUE services: % fairly or very satisfied

Quality	AT	BE	DE	PL	SE	UK	Total
Post	75%	74%	79%	66%	62%	82%	73%
Transport	59%	73%	48%	57%	59%	67%	60%
Electricity	91%	84%	88%	85%	86%	88%	87%
Price	AT	BE	DE	PL	SE	UK	Total
Post	62%	55%	58%	61%	57%	77%	62%
Transport	33%	61%	23%	34%	36%	54%	40%
Electricity	45%	51%	30%	20%	38%	72%	42%

Source: HIVA-K.U.Leuven, PIQUE survey data.

As we see in the table, citizen assessments varied depending on the sector, the country and some of the background characteristics.

In general, the satisfaction with prices is always lower than the satisfaction with quality. We found large differences between the sectors, with overall the highest quality satisfaction in electricity supply and the highest price satisfaction in postal services.

Table 7.2: Citizens' view on changes in price and quality over the last 5 years

How has the quality of mail delivery changed over the last 5 years	AT	BE	DE*	PL	SE	UK	Total
Became better	14%	25%	20%	45%	10%	10%	21%
Stayed the same	59%	53%	60%	44%	50%	54%	53%
Became worse	27%	22%	20%	11%	40%	35%	26%
Did the price of sending a letter increase more than the price of other things over the last five years?	AT	BE	DE	PL	SE	UK	Total
Yes	25%	40%	16%	31%	23%	40%	29%
No	75%	60%	84%	69%	77%	60%	71%
How has the quality of local public transport changed over the last 5 years	AT	BE	DE	PL	SE	UK	Total
Became better	35%	54%	23%	52%	22%	35%	37%
Stayed the same	45%	31%	43%	28%	49%	38%	39%
Became worse	19%	15%	34%	20%	30%	26%	24%
Did the price of local public transport increase more than the price of other things over the last five years	AT	BE	DE	PL	SE	UK	Total
Yes	51%	42%	64%	47%	39%	63%	52%
No	49%	58%	36%	53%	61%	37%	48%
How has the quality of electricity changed over the last 5 years	AT	BE	DE	PL	SE	UK	Total
Became better	14%	13%	9%	25%	16%	14%	15%
Stayed the same	83%	78%	83%	72%	80%	75%	78%
Became worse	3%	9%	8%	4%	4%	10%	6%
Did the price of electricity increase more than the price of other things over the last five years	AT	BE	DE	PL	SE	UK	Total
Increased	39%	57%	68%	70%	74%	63%	62%
Didn't increase	61%	43%	32%	30%	26%	37%	38%

This price sensitivity is also manifested in the citizens' view on recent changes of quality and prices in the three sectors investigated.

All these general perceptions of satisfaction show significant differences between countries, but they also differ by sector and with regard to price and quality.

7.2.2. The impact of liberalisation and privatisation on user satisfaction

Table 7.3: Satisfaction with the PIQUE services: comparison of the most and the least liberalised and privatised countries

		Postal Services			Local Public Transport			Electricity		
			Quality	Price		Quality	Price		Quality	Price
Liberalisation	Most	S	62%	57%	UK	67%	54%	PL	85%	20%
	Least	PL	66%	61%	BE	73%	61%	AT BE DE	88%	42%
	Sign.		n.s.	n.s.		n.s.	n.s.		n.s.	*
Privatisation	Most	D	79%	58%	UK	67%	54%	UK	88%	72%
	Least	PL	66%	61%	AT BE	66%	47%	AT PL	88%	33%
	Sign.		*	n.s.		n.s.	n.s.		n.s.	*

Source: HIVA-K.U.Leuven, PIQUE survey data, n.s.= not significant.

We have not found clear evidence of a preferable market situation. As Table 7.3 shows, only three differences between the most and the least liberalised and privatised countries turned out to be significant. Furthermore, each of them had Poland in the comparison, which is possibly an outlier due to the socio-economic catching-up process in the post-Communist period. The clearest effects were obtained in the price-component of the electricity market. Here, people in the countries with the highest degree of liberalisation are more dissatisfied with the price, whereby privatisations seem to have the opposite effect. However, in general we have to conclude that on the basis of our data, people can be equally satisfied or dissatisfied with liberalised or privatised public service markets.

7.2.3. Main quality components

To gain more in-depth insight about the issue of user satisfaction with the quality and price of public services, we examined which quality dimensions are important and which complaints were expressed in specific countries and/or by specific groups.

Table 7.4: Important quality dimensions for improvement of SGEI's

Postal Services	Local Public Transport	Electricity Supply
Delivery time (AT, BE, PL) Reliability (UK, BE) Service Post Offices (SE)	Timetable information (AT, BE, PL, PL, UK) Connection options (AT, BE, GE) Punctuality (GE) Passenger comfort (PL)	Quality of customer service (BE, GE, SE, UK) Reliability of supply (PL) Harassment by competing suppliers (BE, UK).

Source: HIVA-K.U.Leuven, PIQUE survey data; see detail tables in annex.

This exercise allowed us to point to policy priorities for improving the service. We were able to select quality components and complaints that give a good fit to the general satisfaction with the quality of the services. By looking at the amount of improvement needed and the frequency of complaints on the one hand, and the relative importance of these issues on the other, we identified the quality aspects that are most important for the service providers to focus on if they want to improve the satisfaction of the service's users in the future (briefly summarised in Table 7.4). In general, we could conclude that it is especially time and time-related reliability questions that are key quality priorities in postal services and local public transport, whereas in electricity the quality of customer service plays an important role.

Within these general perceptions of satisfaction we were able to identify the same set of background characteristics that influenced these differences in opinion. A clear division emerged in this regard: Well-educated, critical users tend to have more problems with the quality aspects ('the value dimension') while among people with lower income or lower socio-economic status possible dissatisfaction relates more to the price or cost of a service ('the money dimension').

7.3. Liberalisation, privatisation and universal service obligations

Since the Nice Council of 2001, evaluating the reform of services of general interest has been high on the agenda of the European Commission. According to the Commission, such an evaluation should also focus on how these changes are perceived by users (EC, 2002: 4). Despite increasing EU attention to consumer aspects of services of general interest, alarmingly little research exists on citizens' attitudes towards reforms in these sectors. The PIQUE project contributes to addressing this gap by means of an analysis of citizen attitudes in six EU countries towards liberalisation, privatisation and universal service obligations.

7.3.1. General attitudes

The attitudes towards competition and privatisation were surveyed in the same way for all sectors. In relation to liberalisation, people were asked for each sector if they think competition would have a positive effect on price (first question) and quality (second question). They could agree or disagree with the statement on a 5-point scale. Respondents were also asked to express their preference for a public service provided by a state enterprise, a private company or a combination of both. They were also asked about (dis)agreement with the imposition of universal service obligations.

The surveyed attitudes in this regard are presented in Table 7.5.

Table 7.5: Attitudes on privatisation, liberalisation and universal service obligations of SGEIs

Attitude	Postal services	Local public transport	Electricity supply
Support for total privatisation	All countries very low	All countries very low	All countries very low
Support for liberalisation	All countries medium	All countries medium	All countries medium
Support for universal service obligations	High (AT, GE, PL, SE) Very High (BE, UK)	All very high except Sweden (high)	All high except Belgium (very high),

Source: HIVA-K.U.Leuven, PIQUE survey data.

A 'moderate' yes for liberalisation: In terms of the survey questions on attitudes towards liberalisation (competition), the general trend shows a small majority of respondents in favour of liberalisation in most countries. The support for liberalisation ranges between 40% and 60% (medium) in all countries.

Table 7.6: Attitudes towards liberalisation

	% Agree with 'competition positive effect on ...					
Country	Post Price	Post Quality	Public transport price	Public transport quality	Electricity Price	Electricity Quality
AT	61%	50%	60%	60%	55%	62%
BE	57%	54%	63%	61%	55%	56%
DE	70%	57%	64%	62%	58%	70%
PL	65%	54%	69%	66%	58%	68%
SW	53%	44%	64%	61%	54%	68%
UK	53%	41%	56%	54%	61%	57%

Source: HIVA-K.U.Leuven, PIQUE survey data.

Certainly not purely private: Survey results indicate that citizens still want public components in the provision of public services. The huge majority of respondents opt for a 'mix of both' constellation, while only small minority favours purely private public services.

Universal service obliged: Universal service measures are in general supported by the big majority of surveyed citizens in the six countries.

Table 7.7: Attitudes on universal service aspects

	Postal Services		Local public transport		Electricity	
	Universality - frequency/ generality of delivery	Universality - Post office in the neighbourhood	Reduced price for the less well-off	Every village must be served	Partly reduced price for the less well-off	Same price regardless of remote location
AT	92%	54%	86%	84%	77%	79%
BE	98%	64%	86%	89%	84%	83%
DE	96%	61%	80%	84%	66%	86%
PL	94%	42%	81%	89%	69%	81%
SW	92%	49%	59%	69%	37%	90%
UK	93%	80%	79%	91%	58%	86%

Source: HIVA-K.U.Leuven, PIQUE survey data.

Belgian and UK citizens responded most positively to the universality statements, had the highest reservations about the introduction of competition and were clearly anti-privatisation. As these countries can in many aspects be defined as the most and the least liberalised countries of the PIQUE sample, the hypothesis could be put forward that hopes are raised during the transition period but do not last. Such a proposition, however, clearly remains a hypothesis and would need to be confirmed by comparative research carried out over a longer time frame and/or including more countries.

Possible positive or negative effects of the macro-processes of 'liberalisation' and 'privatisation' are, in other words, not confirmed by the survey results on political attitudes. Clearer results could be obtained in the analysis relating to individual socio-economic position. The respondents' socio-economic status seems to have the most significant influence on the 'belief in competition' attitude variables. For instance, for every sector the results clearly show that the higher the respondents' educational attainment or the more satisfied they are with their income, the more positive is their attitude towards competition. The 'higher' professional categories are also more inclined to believe in competition, except with respect to the postal sector. Furthermore, it is also clear that price satisfaction is a more important driver of the liberalisation attitude than quality satisfaction. Price dissatisfaction (in the more liberalised sectors/countries) leads to a lower support for liberalisation.

The socio-economic 'haves' clearly also believe more in privatisation than the 'have nots', although this attitude is less significant and shows greater sector-specific variations than the 'belief in competition'.

This leads us to what is perhaps the main conclusion of this attitudinal part of the PIQUE survey, namely that it is clearly not only the actual macro situation and/or satisfaction with performance (price and quality) of public service(s) in a country that solely influences the attitude of citizens towards liberalisation, privatisation and

universal service obligations. The socio-economic position also strongly matters. In their proposals to regulate liberalisation and privatisation, European policy makers certainly also need to keep in mind the effects of socio-political values and socio-economic differences with regard to these evolutions.

7.4. 'Choice' as consumer attitude and behaviour

A third and final part of the survey dealt with the 'choice' paradigm. For all three public services surveyed, the question was included on whether citizens want or do not want choice. For the electricity supply sector, additional choice questions were asked: on whether the respondents do or do not have choice and what reasons they have for (not) having changed their electricity supplier.

Table 7.8: Wanting choice between different providers, % yes

Want choice	Austria	Belgium	Germany	Poland	Sweden	UK
Postal services	21%	37%	32%	88%	35%	37%
Local public transport	39%	32%	42%	92%	29%	61%
Electricity supplier	63%	73%	75%	93%	90%	77%

Source: HIVA-K.U.Leuven, PIQUE survey data.

Table 7.9: 'Choice' behaviour in electricity supply

	Austria	Belgium	Germany	Sweden	UK
Not possible	32%	20%	19%	12%	10%
Possible, but not considering or not doing	61%	64%	65%	65%	43%
Possible, considering or doing	7%	16%	16%	24%	47%

Source: HIVA-K.U.Leuven, PIQUE survey data.

The main results of this 'choice' question of the PIQUE survey can be summarised as follows: The choice paradigm is not a general attitude and, as illustrated by the electricity sector, it is currently not a majority practice used in the public services under consideration. The results of the Polish sample form an exception in this regard: In Poland, there is an overall demand for having (market/provider) choice. Based on the different findings by sector and country, we hypothesise that more citizens are pushed to acknowledge choice by preceding reforms rather than consumers 'pulling', or demanding, 'choice'-based reforms.

Table 7.10: What was the main reason for having changed supplier (the last time)?

	Austria (n=25)	Belgium (n=63)	Germany (n=74)	Sweden (n=107)	UK (n=229)
Lower prices	92%	75%	74%	85%	78%
Better service	0%	14%	5%	1%	8%
Possibility to buy green power	5%	9%	7%	1%	0%
Recently moved and had to change supplier	3%	1%	10%	12%	14%
Previous supplier stopped activity	0%	1%	4%	1%	0%

Source: HIVA-K.U.Leuven, PIQUE survey data.

When a consumerist attitude or behaviour (in electricity) is detected, it can be related to the public choice theory. It is the more critical, well-educated consumer that want more choice. When switching electricity supplier, the promise of price reductions seems to be the main driver. For some countries, however, the results show higher percentages of transaction cost problems (Table 7.11), such as lack of information in Belgium and administrative burdens in Austria.

Table 7.11: Percentage of non-switchers mentioning at least one process barrier as reason*

Austria	Belgium	Germany	Sweden	UK
16%	26%	20%	11%	14%

* Process barriers: unable to obtain information, unable to compare offers properly, changing is too much trouble, not aware of other suppliers.

Source: HIVA-K.U.Leuven, PIQUE survey data.

7.5. Conclusions

The survey, the results of which this policy paper summarises, constituted a major phase of the PIQUE research project, which is aimed at assessing the impact of liberalisation and privatisation processes in public services in Europe. As part of this assessment, the survey looked into the impact of these European Union driven processes from a citizens' perspective, investigating on the attitudes towards services of general economic interest and its perceived service quality.

From a satisfaction perspective

From a satisfaction perspective, one can conclude that citizens are generally satisfied with the quality of services. However, the level of satisfaction can vary substantially by sector and country, leaving substantial room for improvement. Price,

in this regard, seems to be the main driver of satisfaction and, at present, a major cause of dissatisfaction, especially in the electricity sector.

From a quality perspective

When looking at the quality components of the public services studied, time and reliability issues emerge as key components of these network industries: Postal items need to be delivered on time, busses have to be punctual and, with the necessary connection possibilities, electricity power cuts have to be avoided.

From a political perspective

The surveyed citizen groups show moderate support for the liberalisation policies. However, they firmly reject full privatisation and clearly expect the state to guarantee a range of universal service obligations in each of the sectors.

From a market perspective

We can certainly state that if marketisation is the policy goal, there is still a great need to 'train' citizens and facilitate consumerism today. The modern 'citizen-consumer' who expects and demands 'choice' from these public services is still largely a policy fallacy, if we look at the general attitude patterns and the behaviour experience in the electricity sector so far.

From a social perspective

Throughout the study clear social demarcations were detected between 'haves' (higher educated, bigger income and higher professional status) and 'have nots' (lower educated, lower income and lower professional status).

- The latter show higher rates of dissatisfaction.
- The former give more importance to the quality/value dimension of a service than to its price/money dimension.
- Policy support is mainly determined by social-political values and socio-economic position than by the individual performance assessment of the services. Politics is clearly losing support on this matter at the lower end of society.
- The critical consumer paradigm of 'choice' is socially and paradoxically 'biased': people which show the lowest satisfaction also show the least interest in choice behaviour and practice.

Leading to a final reflection ...

Based on these general conclusions, we want to end this paper by making two final policy reflections.

At the direct policy level of implementation: IF one believes in the market solution and IF one subscribes peoples' right to choose, THEN one also needs state intervention taking real consumer attitudes and behaviour into account. In other words: competition policies will also need a demand-side pillar involving: a) the

design of a consumer-choice architecture as part of market creation; and b) social policies as corrective instruments.

In this regard we could refer to what in some countries is already happening in the field of electricity supply. Consumers are beginning to delegate their electricity buying decisions to consumer cooperatives or similar organisations because they do not have sufficient motivation, capacity (being trained and informed as critical consumers) or opportunity (the purchasing power to get a better deal). European policy makers could learn a lot from exploring the dynamics of such initiatives in order to understand consumer behaviour and create a regulatory environment that empowers service user instead of service providers.

At the more abstract level of policy theory, we can also read the results as a cry for safeguarding the public nature of these services. The public nature of services of general interest then seems to be less a question of state involvement or state ownership but much rather lies in these services' immanent character: They have to be publicly available and universally guaranteed without much private consumer decision making.

7.6. References

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7.7. Annex: Quality components of the services

Table 7.12: Postal services: How much improvement is needed?

	AT	BE	DE	PL	SE	UK	Mean
The time it takes before a letter is delivered	37%	33%	28%	49%	22%	34%	34%
The frequency of mail delivery	16%	11%	15%	18%	9%	18%	15%
The reliability of the delivery	21%	28%	20%	31%	21%	30%	25%
The distance to the nearest mailbox	25%	22%	27%	25%	12%	12%	21%
The ease to obtain stamps	30%	29%	42%	37%	27%	13%	30%
The customer service in the post office	23%	36%	30%	35%	43%	21%	31%
Country mean	25%	27%	27%	33%	22%	21%	26%

Table 7.13: Postal services: frequency and filing of complaints

	AT	BE	DE	PL	SE	UK	Mean
Mail not received	13%	27%	14%	11%	15%	30%	18%
Damaged mail	13%	21%	13%	9%	17%	21%	16%
Mail delivered to the wrong address	35%	71%	32%	19%	51%	51%	43%
Posted mail arriving too late	19%	34%	15%	31%	18%	34%	25%
Long waiting times, queues in the post office	26%	52%	43%	51%	19%	46%	39%
Poor customer service in the post office	11%	20%	17%	19%	20%	15%	17%
Country mean	20%	37%	22%	23%	23%	33%	26%
Have you filed a complaint in reaction to this negative experience? (postal services)	8%	15%	8%	11%	21%	12%	13%

Table 7.14: Local public transport: How much improvement is needed?

	AT	BE	DE	PL	SE	UK	Mean
The timetable (frequency and availability)	42%	46%	45%	48%	45%	41%	44%
Comfort when travelling	33%	35%	33%	48%	21%	35%	34%
Punctuality of service (respecting the timetable)	34%	43%	48%	44%	30%	39%	40%
Connection possibilities	45%	44%	49%	38%	43%	40%	43%
Treatment by the staff	29%	26%	34%	31%	22%	26%	28%
Decent behaviour of co-travellers	41%	51%	46%	53%	25%	45%	44%
Information on fares and schedules	42%	33%	51%	47%	29%	40%	40%
Country mean	38%	40%	44%	44%	31%	38%	39%

Table 7.15: Local public transport: frequency and filing of complaints

	AT	BE	DE	PL	SE	UK	Mean
Regular delays (more than 10 minutes)	20%	34%	22%	26%	15%	32%	25%
Vehicle breakdown	22%	18%	28%	25%	13%	18%	21%
Harassment when travelling	6%	11%	13%	9%	2%	11%	9%
Overcrowded buses	54%	68%	47%	48%	34%	50%	50%
Journey cancelled without notice	9%	25%	17%	19%	10%	27%	18%
Country mean	22%	31%	25%	25%	15%	27%	24%
Have you filed a complaint in reaction to this negative experience? (local public transport)	5%	6%	10%	4%	17%	12%	9%

Table 7.16: Electricity supply: How much improvement is needed?

	AT	BE	DE	PL	SE	UK	Mean
The way electricity is produced in environmental terms	61%	74%	70%	66%	65%	64%	67%
Reliability of the electricity supply	22%	31%	24%	36%	35%	29%	30%
The technical support (for example in case of power cuts)	31%	37%	35%	47%	36%	36%	37%
The clarity of the electricity bills	43%	45%	48%	38%	51%	30%	43%
The quality of the customer service	29%	40%	37%	25%	34%	37%	34%
Information to compare suppliers	49%	59%	54%	60%	60%	43%	54%
Country mean	39%	48%	45%	45%	47%	40%	44%

Table 7.17: Electricity supply: frequency and filing of complaints

	AT	BE	DE	PL	SE	UK	Mean
Administrative problem or dispute	4%	13%	2%	5%	10%	12%	7%
Disproportional price increase	20%	18%	33%	17%	14%	27%	22%
Unacceptable power breakdown	6%	10%	5%	12%	6%	13%	9%
Harassment by other suppliers in convincing to change	13%	28%	15%	0%	20%	46%	20%
Financial difficulties to pay the bill	3%	5%	4%	13%	4%	8%	6%
Country mean	9%	15%	12%	9%	11%	21%	13%
Have you filed a complaint in reaction to this negative experience? (electricity supply)	5%	17%	8%	9%	20%	14%	12%

8. THE IMPACT ON EMPLOYMENT, PRODUCTIVITY AND SERVICE QUALITY

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8.1. Introduction

This chapter summarises the findings of the PIQUE project and integrates them into a common conclusion. Following the major research questions pursued in the project, the results are presented in terms of changes in markets, ownership and regulation, employment, working conditions and labour relations as well as productivity and service quality. The chapter ends with a discussion of the users' perspective on liberalisation and privatisation, the role of regulation and with a brief conclusion. The evidence presented in the chapter is based on different research methods, such as a quantitative survey, secondary analyses of quantitative data, case-study research based on qualitative interviews, as well as analyses of existing literature, reports and documents. Evidence comes from four sectors (electricity, postal services, local public transport, hospitals) and six countries (Austria, Belgium, Germany, Poland, Sweden, United Kingdom).

8.2. Markets, ownership and regulation

Liberalisation is essentially about the introduction of competition. The main argument of advocates of liberalisation is that competition forces alternative providers to improve productivity and service quality. It is the trust in the beneficial effects of competition that induced policy makers to abandon public-sector monopolies in favour of public-service markets. In some countries the introduction of competition was combined with the privatisation of public-service providers, but EU liberalisation policy formally does not concern itself with the question of ownership. With the exception of the United Kingdom, where in several sectors privatisation had already started in the late 1980s and early 90s, in most countries and sectors in this analysis liberalisation and privatisation did not start before the mid 1990s, and liberalisation and privatisation processes frequently gained momentum in the late 1990s and in the years after 2000. In electricity and postal services, European sector directives played a crucial role in orchestrating the liberalisation processes; European regulation also had a significant impact in local public transport, while regulation in the hospital sector is still mostly determined at national level.

Accordingly, liberalisation processes in electricity and postal services are more consistent across the countries than they are in local public transport and hospitals. In electricity liberalisation has been completed insofar as according to existing electricity-sector regulation all consumers in the European Union should have the possibility to choose between two and more providers (yet the PIQUE survey shows that a significant proportion of consumers have the impression that changing

electricity providers is not possible). In postal services, Germany, Sweden and the United Kingdom, among others, have already fully liberalised postal markets, while in Austria, Belgium and Poland post items weighing 50 grams or less are still handled exclusively by the incumbent post companies. After 2011 (in Poland 2013) the remaining barriers for competing providers must be lifted. In both sectors, markets were liberalised in several steps – in the electricity industry depending on the amount of electricity consumed by the customer and in postal services depending on the weight of post items and the price category of the service. In the hospital sector pressures arise from marketisation rather than competition, but there is at least one country (Germany) with a systematic shift towards hospital privatisation. Local public transport and the hospital sector also differ from electricity and postal services, as service providers typically do not compete for customers but for exclusive service contracts awarded by funding organisations for a limited period (hence there is competition *for* the market rather than *in* the market).

Although the creation of a competitive business environment is the main reason for the liberalisation of public services, the evolution towards competitive market structures has been moderate (Hermann/Verhoest 2007). Only in a very few sectors has liberalisation led to a situation where a large number of providers are in intense competition for customers or contracts. Instead, the breaking-up of public monopolies and the creation of public-sector markets have frequently resulted in concentration processes, often after an initial increase in the number of providers (ibid). Reasons include the specific nature of the markets (which was the reason for establishing public monopolies in the first instance), the scale of the markets (only a few providers can compete on a European scale), and the propensity of companies to avoid competition by mergers and acquisitions. In electricity, but increasingly also in postal services, several of the companies analysed in the company case studies have been involved in merger activities (Flecker/Hermann 2009). In fact only one out of six companies studied in the electricity sector has so far not been merged with or taken over by another provider. However, the respective company also tried to circumvent competition by forming an electricity alliance with other regional providers. In the hospital sector two out of four case study hospitals were involved in merger processes. Here the main reason was not to avoid competition but to exploit economies of scale in a situation of increasingly tight and competitive funding (ibid).

While the evolution towards competitive market structures was limited, liberalisation was more successful in terms of raising the share of private ownership among public-service providers. In fact public monopolies were often replaced by private oligopolies – although in most sectors there is still a significant number of public providers or public authorities still own a substantial share in former monopoly suppliers (Hermann/Verhoest 2007). Again supporting evidence can be found from sector-level analysis as well as from the company case studies. In electricity all except one of the case-study companies are meanwhile predominantly privately owned and only one out of four post incumbents is still fully in public hands. Even public hospitals and local transport providers have been sold to private investors. In

several cases the shift towards private ownership was accompanied by an increase in foreign ownership. This is particularly evident in the electricity sector, where five out of six electricity providers included in the PIQUE research are mostly foreign owned. In Belgium almost the entire electricity industry is predominantly in foreign hands. In postal services it is often the new competitors that are owned by foreign post incumbents. In a rather new development, post incumbents are increasingly buying up shares of former post monopolists in other countries (Flecker/Hermann 2009).

Liberalisation and privatisation of public services was closely linked to changes in the regulatory systems. Previously, public-service providers were typically publicly owned and as such subject to governance by local, regional and national authorities. But even where providers operated on a private for-profit or not-for-profit basis, they were subject to comprehensive regulations, starting with provisions on minimum investment levels and ending with mandatory price regulations. Liberalisation and privatisation had a two-fold effect: firstly, public ownership is no longer the dominant form of governing public services; secondly, regulation focuses on enabling competition, rather than governing the entire value chain (Hermann/Verhoest 2007). The assumption is that the 'free' play of market forces will create the most beneficial outcome for consumers. In the electricity sector, for example, regulation focuses on third-party access to electricity networks in order to make sure that network operators, many of whom are also active in production and supply, do not disadvantage competing providers by demanding monopoly tariffs. Equal access to the network is considered to be crucial for the development of an effective supply market. Consequently, the newly established regulatory authorities impose tariffs for electricity transmission, while matters such as prices for end-consumers or investments in infrastructure are autonomously decided by company management.

In several cases, such as local public transport, new, complex and costly control regimes have been introduced to make sure that private contractors meet their contractual obligations. In some cases regulation also includes the imposition of a set of public-service obligations, yet these typically apply to only one provider in the sector, while the others are free to provide the services at their own discretion (which, then, raises pressure on the universal service providers to adopt similar practices). Given the limited success of liberalisation in creating competitive market structures, the emphasis on enabling competition rather than governing the entire service value chain entails a number of risks. As the case studies show, companies have sometimes responded to liberalisation and privatisation by increasing prices – although not equally for all consumer groups (large customers pay less, small customers more); cutting back on the amount and scope of services (e.g. the network of post offices), worsening some service aspects (e.g. eliminating walk-in service centres), as well as by reducing investments (e.g. investments in electricity networks). The shift towards private ownership and the increasingly narrow scope of regulation are in contrast to the attitude of many public-service users. As the PIQUE survey shows, a clear majority of public-service users reject exclusively privately owned public services and are in favour of public-service obligations.

8.3. Employment, working conditions and labour relations

8.3.1. Employment

Liberalisation advocates have not only promised cheaper and better services; they have also argued that the reduction in prices will boost demand and thereby create more jobs than there were under monopoly regulation. In its 2003 Green Paper on Services of Public Interest, the European Commission concludes that the impact of market opening on net employment in the network industries has been broadly positive: 'Job losses, particularly amongst former monopolies, have been more than compensated for by the creation of new jobs thanks to market growth.' The findings of PIQUE and other recent research point in an other direction. An analysis of sector-level employment data shows that a large number of jobs in network industries have been lost since liberalisation or privatisation. In the electricity industry, between 33% and 22% of jobs disappeared between 1995 and 2004 (except for Poland) (Jefferys et al. 2008: 4-5).²³ Within the EU-15, total losses amount to 246,000 jobs between 1995 and 2004 (Ecotec 2007). In postal services job reductions amount to between 20% and 8% (except for the UK). In Austria, Belgium, Germany and Sweden together more than 80,000 jobs were lost between 1995 and 2005 (ibid: 5).²⁴ This trend is confirmed by the company case studies, which show substantial job losses at the former monopoly providers in electricity and postal services. The case studies on new competitors in the electricity and post sectors also show that jobs created by new providers, emerging on liberalised markets, cannot compensate for the job losses at the incumbent monopoly suppliers - especially if counted on a full-time basis. And although service providers in liberalised public-service markets have extensively used outsourcing as a measure to cut employment and costs, outsourcing alone cannot account for the size of job losses in the companies affected (Flecker/Hermann 2008: 5-6).

In local public transport and hospitals the situation is different. Local public transport shows growing employment numbers (except for Sweden), whereas in the hospital sector there are countries with growing, stagnating and decreasing employment (Jefferys et al. 2008: 6-7) Findings from the company case studies also show a varied picture: some establishments have hired additional workers, while others have reduced employment numbers. In any case, the difference to electricity and postal services is that in local public transport and hospitals demand is driven by public expenditure rather than by falling consumer prices. If anything, the company case studies show that competition and marketisation in the two sectors have induced providers to cut costs, and they do so, among other things, by cutting jobs (Flecker/Hermann 2008: 5-6).

Despite the dramatic job losses recorded in some sectors and companies, compulsory lay-offs were an exception. Instead, employment reduction was mainly achieved

²³ Data is drawn from the Eurostat Structural Business Survey (for details see chapter 6).

²⁴ Data is drawn from national statistical sources (for details see chapter 6).

through non-replacement of workers who had moved into retirement, and through special measures such as early retirement programmes or special bonuses for workers who leave the company voluntarily. In the case of a Polish electricity provider, such measures allowed the company to cut employment by 30% within six years. Now average staffing is below the standard of its Western European parent company. In some cases the 'redundant' employees who decline to leave the companies (and cannot be sacked) are shifted into internal employment agencies. Management defends such measures as a possibility to retrain staff and to find them new workplaces. In the Austrian post case study, the works council representative assures that the internal employment agency (euphemistically called 'career and development centre') is a dead-end street and no one who is parked there has a future in the company. For the workers the situation is extremely depressing. They have to show up every morning but are left without anything useful to do until they can leave again at the end of their working shift (if they do not show up or leave early they risk being sacked for disciplinary reasons).

However, liberalisation and privatisation were not only accompanied by a reduction in employment, they have also led to significant changes in employment contracts. Sector-level data show a general increase in part-time employment (Jefferys et al. 2008). While this reflects a general economic trend, in some sectors, such as postal services, the increase in part-time jobs is linked to a reorganisation of the delivery networks. If the current trend continues, post carriers who deliver mail and are employed on a full-time base will be a thing of the past. In many cities and regions mail deliverers will work exclusively on part-time contracts. Yet there is not only an increase in part-time work; data from Germany show that the new competitors on the German postal market in particular mostly operate with workers on marginal part-time contracts or what in Germany are called 'mini jobs'. These workers only work for few hours per week and, if they have no second job, earn so little that they qualify for additional funds from German social assistance (Hermann/Brandt/Schulten 2008). The company case studies show that in some hospitals management has also increased the part-time rate because the flexibility of part-time workers allows them to save costs. In electricity, part-time employment so far is largely confined to the newly established call centres, where part-time workers are used to extend operating hours.

Rather than employing part-time employees, electricity providers resort to temporary and agency workers. The situation is particularly dramatic in Belgium, where a substantial part of the workers in the electricity industry work on temporary contracts. In local public transport, there is in some countries a tendency to employ workers on fixed-term contracts adjusted to the contract between the employer and the tendering organisation. In postal services, new competitors not only use marginal part-time to lower labour costs, but in some countries also resort to self-employment. New providers on the Austrian letter market, for example, employ their mail deliverers exclusively as self-employed workers paid piece rates. As self-employed workers they lack any protection through collective agreements or labour

legislation. As those workers who are employed on 'mini jobs' they can hardly live from their income. In Vienna and the eastern part of Austria many of these workers are therefore asylum seekers or cross-border commuters from nearby Slovakia and the Czech Republic (ibid). Hence liberalisation and privatisation not only leads to an increase in atypical forms of employment but also to the creation of precarious jobs.

8.3.2. Working conditions and work organisation

With few exceptions liberalisation and privatisation have led to an intensification of work. In the company case studies management rarely denies that workers today are expected to complete more tasks in a shorter amount of time than before the start of the liberalisation and privatisation processes. Management, however, argues that previously staff in monopoly providers were often under-performing in comparison with workers in private-sector companies. Notwithstanding the necessity to improve public-sector performance, in some cases management has acknowledged that the intensification of work has reached a limit, which makes it difficult, especially for older workers, to cope with the growing workloads.

In electricity and postal services increasing workloads are linked to cuts in employment numbers. The cuts went so far that the introduction of new technology and changes in work organisation, both of which can be found in the case studies, cannot on their own account for the fact that a decreasing number of workers produce the same or even a greater amount of output. In postal services, workloads were increased through an extension of delivery routes or through an increase in the number of delivery points served per working hour. As a result, workers have increasing problems completing the routes within their working shifts. Conversations with residents, which can be seen as part of a social function of post deliverers in local communities, are no longer possible under these circumstances. In the electricity industry, employers frequently resort to overtime to compensate for increasingly tight staffing levels. In addition workers in some companies complain about growing bureaucratic tasks caused by the compulsory demerger of electricity companies or by excessive requirements from electricity regulators in connection with overseeing the costs of network maintenance.

Similar developments can be found in hospitals. Hospital workers not only suffer from a decreasing patient-to-nurse-ratio; in addition nurses complain about mounting administrative work caused by shorter average length of stay of patients (increasing the proportion of admission and discharge procedures) and by a transfer of administrative tasks to nurses (which allows the hospital to save jobs in administration). In local public transport, drivers complain about the elimination of slack time and the shortening of breaks. The Swedish local transport case study has revealed that drivers sometimes risk dehydration because they drink less in order to reduce the frequency of using a toilet.

Increases in workloads following liberalisation and privatisation are often combined with or caused by changes in working hours. Management argues that flexible

working hours improve flexibility and therefore efficiency. Partly they help to extend operating hours or to cope with unforeseen demand. More often, however, flexible working hours are used by employers to reduce labour costs. As mentioned before, part-time work plays an important role in postal services and hospitals. The proportion of part-time jobs in the health sector is not only the highest among the sectors studied here, but it is usually also higher than the national part-time rate. In local public transport the part-time rate is still far below the national average. Here employers prefer split-shifts to cope with varying demand and to avoid the payment of regular wages for breaks between peak traffic periods. While employers in postal services, local public transport and hospitals make greater use of flexible working hours to avoid the payment of costly overtime supplements, electricity companies frequently use overtime to cope with unforeseen problems such as repair field work after a storm or an accident. Electricity companies can use overtime because labour costs make up a significantly smaller part of the overall production costs than in the other three sectors.

Technology plays an important role in the transformation of working conditions. The use of new technology has the potential to increase productivity without deteriorating working conditions. Technology can be particularly helpful in reducing the amount of physical strain and routine tasks. In the electricity industry, the number of blue-collar workers has been falling for a number of years. Due to the application of new technology, but also to the expansion of retailing, trade and IT, jobs have become more mentally than physically demanding. Yet the introduction of new technology can also have the opposite effect: In postal services the introduction of fully automated sorting centres and the use of GPS technology has deprived the job of a post deliverer from the more interesting aspects of work. What remains is the mere act of delivering mail (following a GPS device, post deliverers do not even have to know the area where they are delivering mail). Given the increasing amount of mail they are expected to deliver, the job has become not only become more monotonous but also physically more demanding. Another aspect of new technology is its potential to improve control over work processes and workers. In several cases, changes induced by liberalisation and privatisation included the establishment of 'flatter' hierarchies within companies and the introduction of more direct lines of responsibility. Workers have welcomed this development because it gives them more leeway to make autonomous decisions (whereas in the former 'bureaucratic' structure they had to ask for permission from a superior for every action that slightly deviated from the rule). Yet in part greater autonomy has been complemented by enhanced IT-based control efforts. Management in the Austrian post case study, for example, constantly monitors the volume of mail handled by a local distribution base and immediately cuts back staff numbers as soon as it sees a reduction in the number letters. In a similar way, employees working at post counters in post offices or in customer-service call centres can easily be controlled through the electronic records of their customer interactions.

8.3.3. Labour relations

Public-sector workers typically form strong trade unions that are able to establish highly centralised and comprehensive bargaining structures, even if their bargaining rights are only informal. Consequently they function as a pace setter in terms of enforcing worker-friendly labour standards and working conditions (including, in many cases, de facto protections from dismissal). Yet labour standards were not only higher than in the private sector, employment and working conditions were also more homogeneous. The income differences between the lowest and highest paid employees were significantly smaller than in private sector enterprises (Brandt/Schulten 2008).

Liberalisation and privatisation have caused a far-reaching fragmentation and decentralisation of public-sector labour relations. As a general trend, sector-level bargaining has been replaced by company-level bargaining and in some cases even by negotiations with different groups of workers within the same company. In some countries the breaking-up of public service monopolies has resulted in a situation where different collective agreements apply in the same sector and/or some providers are covered by an agreement while others are not (ibid). Given the increasing fragmentation of the bargaining systems, competing providers on the newly created public-service markets rarely find a common level playing field. Instead the new providers often profit from lower labour standards and thereby increase pressure on former monopolists to reduce their labour costs. Given that most of these services are highly labour-intensive – labour costs make up 60 per cent and more of their production costs – the possibility of reducing costs by automation is limited. Employers therefore fall back on cutting wages or increasing the proportion of atypical and precarious forms of employment. Belgium and Sweden are exceptions in this respect: due to their comprehensive labour-regulation system the differences between collective agreements and employing companies are limited (ibid).

Increasing fragmentation and decentralisation of public-sector labour relations is mirrored in growing differences in employment and working conditions. Differences emerge between 'old' and 'new' employees within the same company, with the latter typically earning significantly less for the same job than their colleagues who have been hired before a certain date in the liberalisation and privatisation process. Differences also emerge between former monopolists and new competitors, especially if they are covered by different collective agreements or if a provider declines to join the collective bargaining system (in those countries where this is legally possible). Substantial differences also exist between parent companies, subsidiaries and outsourced services (Flecker/Hermann 2009: 6-8). In the electricity sector, employers in some countries have deliberately exploited new regulation that required them to set independent business units for the different value chain segments to escape 'expensive' electricity-sector collective agreements.

Workers in independent subsidiaries or in outsourced services usually suffer from worse employment and working conditions compared to their colleagues in the core

unit or parent company. This is true for call-centre agents working in outsourced call centres in the electricity industries, cleaners employed by a private cleaning firm to clean public hospitals, self-employed mail deliverers, as well as bus drivers employed by a subsidiary of a municipal transport service. The case study on the municipal German transport service shows how bad working conditions are passed on within outsourcing relationships: the workforce of the subsidiary not only earns less but also has to serve the 'bad lines' with irregular working hours and long breaks between driving periods. Differences not only emerge between core and outsourced services but also between former monopolists and new competitors (Flecker/Hermann 2009: 4-6). In particular, employment and working conditions provided by the new competitors on liberalised postal markets are significantly worse than those provided by the incumbents. In Austria and Germany, new providers pay only half of the wages for mail deliverers paid by the former incumbents (Hermann/Brandt/Schulten 2008). Hence what was previously a public service that provided stable jobs and decent income could be turned into a low-wage sector if no counter-measures are introduced (such the German postal-sector minimum wage).

In many companies new human-resource management strategies were introduced after liberalisation and privatisation. These often resulted in enhanced training efforts. Yet the training activities were not evenly spread over the workforce. Rather, only a small section of the workers (e.g. younger staff, or workers in the core units) benefited, which led to amplified differences among public sector workers (ibid: 8-9). New human-resource management strategies often include the introduction of management by objectives and performance-based salaries or wage components.

8.4. Productivity and service quality

Macro-data do not show clear long-term effects of liberalisation and privatisation of public services on productivity. Instead, other factors such as GDP-growth or shifts in dominant technologies seem to be more important in explaining the ups and downs in long-term productivity development. Yet a comparison of the different factors driving productivity growth — the reduction in labour input and the expansion of output — reveals that for some time after liberalisation and privatisation productivity growth time is primarily driven by a reduction of labour input (reducing the number of workers) as opposed to an expansion of output (increasing the volume of service) (Jefferys et al. 2008: 7ff). This phenomenon can be confirmed by the findings from the company case studies. The responses from management, works-council representatives and workers suggest that work intensification, reorganisation and the introduction of new technology have, indeed, led to an increase in productivity — at least for a limited period. Especially in those companies who have significantly cut back employment fewer workers now produce the same or a greater amount of output than before liberalisation and privatisation.

Of course, greater productivity at company level does not have to translate into greater productivity on the sector level: companies may have become more efficient,

but at the same time, due to liberalisation and privatisation, they have also duplicated and multiplied certain service components – there are now two and more delivery networks in postal services, while electricity companies have created multiple retail departments to compete for customers. On the other hand companies have also increased productivity by cutting back or streamlining services – e.g. by closing-down post offices in rural areas.

The case studies also reveal that productivity increases have rarely been an objective in themselves (Flecker/Hermann 2009: 11-12). Instead, productivity gains are a by-product of a general attempt to cut production costs. This has two consequences: Firstly, productivity increases were frequently combined with other cost-cutting strategies that led to a deterioration of employment and working conditions. Secondly, improvements in productivity can have negative effects on service quality – in particular on quality aspects that depend on large labour inputs (e.g. face-to-face customer communication) or where the quality of service is closely linked to the quality of work (e.g. the care of patients) (ibid).

This is not to say that liberalisation and privatisation have had only negative effects on service quality: the case studies show important improvements in quality through the introduction of new technology, which allowed for the speeding-up of service processes and greater accuracy in service delivery, as well as better service responsiveness and extended availability of customer care. Companies also make considerable efforts in overseeing and measuring particular quality aspects. However, improvements in quality have only been observed where they do not conflict with the aim of cutting costs, and in many cases with the aim of reducing employment. In contrast, quality aspects that demand additional labour resources or are dependent on high-quality working conditions have more than once been compromised as a result of liberalisation and privatisation.

Hence electricity companies have set up new and centrally operated customer-care call centres with extended operating hours, but at the same time they have closed down local walk-in centres where customers could talk to an agent face-to-face. Post companies deliver a large part of the mail only one day after it has been posted, but waiting times in post offices have increased due to cut-backs in post office staff numbers. In electricity the aim of cutting costs has caused some companies to reduce investment in infrastructure, which in the long-term may have negative effects on service quality.

8.5. The users' perspective

The user survey reveals that there is no clear link between the degree of liberalisation and privatisation and consumer satisfaction. Consumers can be equally satisfied or dissatisfied in sectors with no competition and a large amount of public ownership and such with intensive competition and mainly privately owned providers (Van Gyes/Vael/Vandekerckhove 2009). In general, service users are quite satisfied with the quality of public services and a majority believe that the service quality has

not changed in the past five years (except for Poland). However, there is still scope for improvement. In local public transport and postal services, users emphasise time and time-related reliability issues that can be improved, while in electricity customer services do not always meet the standard expected by consumers (in some countries consumers complain about being harassed by electricity retailers, who have introduced new and sometimes rather aggressive strategies to attract new customers).

The survey also shows that while a qualified majority of respondents are in favour of liberalisation and believe that competition has positive effects, a large majority are against fully privately owned public services, while only a minority want to have choice (except for Poland). In electricity a majority welcome choice but at the same time do not consider changing their suppliers (ibid). Although there are important differences between countries (Poland especially is an outlier due to the simultaneous transformation from a state-communist to a market-based economy), the survey also discloses that it is primarily the class position of the respondents that explains their attitude towards competition and choice: less well-off citizens are generally more critical of liberalisation and privatisation (ibid). Given the diverse effects of liberalisation and privatisation on different groups of consumers (through the diversification of prices, the cutting-back of services in rural areas etc), this should not come as a surprise. In any case, the survey shows strong support among service users for universal-service obligations such as equal access to services and lower rates for low-income earners (ibid).

8.6. The role of regulation

In sum, the PIQUE results do not show a clear relationship between the degree of competition and the extent of private ownership on the one hand and changes in employment, productivity and consumer satisfaction on the other. Although competition and ownership certainly have an impact on company behaviour, the case studies show that companies cut back employment and worsen working conditions even though they are operating in oligopolistic markets and even though they are predominantly publicly owned. And although competition may induce companies to cut costs, this does not automatically translate into long-term productivity gains and higher consumer satisfaction with the quality of services. Notwithstanding the similarities in the transformation of public service provision caused by liberalisation, the PIQUE research has also revealed remarkable differences between countries and between companies acting in liberalised public service markets. Such differences can most plausibly be explained by regulation rather than by market and ownership structures.

The company case studies show that differences in public funding and being subject to detailed public-service obligations can make a difference when it comes to service quality. Similarly important are employment regulations that make sure that public-service providers compete on a common level playing field and compete by investing in new technology and improving service quality rather than by putting pressure on

their workers' wages. The difference between the Swedish postal sector, where the incumbent and the new competitor are covered by similar collective agreements, and therefore have to provide similar employment standards, and the Austrian and German letter markets, where competitors mainly compete by under-cutting wages, speaks volumes. Especially in labour-intensive services where the quality of service is closely linked to the quality of work, comprehensive and effective labour regulations are indispensable. In some countries the traditional labour-relations systems are able to provide a common level playing field in liberalised public-service markets, in others they are not. While the European Union has required member states to adopt a new regulation that permits competition, it has paid only little attention to social regulation.

8.7. Conclusions

The PIQUE project has shown that liberalisation and privatisation of public services have largely negative effects on employment and working conditions and varied effects on productivity and service quality. Positive effects and better performance as compared to other countries were mostly the result of superior regulation rather than of competition or private corporate initiative. The PIQUE project has also shown that liberalisation and privatisation has fuelled inequality – among public sector workers who are paid different wages for the same jobs, as well as among consumers depending on their consumer power or the place where they live. Not surprisingly, the less well-off consumers are more critical towards liberalisation and privatisation. These tendencies have been amplified by an increasing fragmentation and decentralisation of public-sector labour relations and forms of regulation that focus on enabling competition rather than covering the entire service value chain. Where companies are subject to public-service obligations these only apply to one provider while the others are free to provide the service at their own discretion. Given the fact that liberalisation and privatisation were more successful in terms of changing ownership structures than in creating highly competitive public service markets, existing patterns of public-service modernisation need to be reconsidered. While service users are not necessarily looking for choice in public service provision, they see a need for improvements in service quality and for a reduction of prices. Hence the nature of service provision should not be left to the 'free' play of market forces but ensured by strong, comprehensive and accountable regulation that makes sure that all important quality aspects are met and that the universal character of public-service provision is retained. In this regard, public ownership combined with new forms of service users' participation should still be considered as a viable and efficient form of regulation.

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9. POLICY RECOMMENDATIONS

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9.1. Introduction

The European Commission in various documents stresses the role of affordable high-quality public services, or, in EC terminology, services of general interest, for the well being of European citizens and the prosperity of European businesses. In the 2004 *White Paper on Services of General Interest*,²⁵ the Commission states that 'Community policies have significantly contributed to improving the quality, choice and efficiency of a number of services of general interest. The Commission remains of the view that the objectives of an open and competitive internal market and of developing high quality, accessible and affordable services of general interest are compatible. Indeed, the creation of an internal market has significantly contributed to an improvement in efficiency, making a number of services of general interest more affordable.'

The findings of the three-year research project 'Privatisation of Public Services and the Impact on Quality, Employment and Productivity' (PIQUE) show that the reality is more complex and that consequences of liberalisation and privatisation of public services are contentious and partly contradictory. Instead of a clear improvement as expected by the Commission, the project has found improvements in some aspects (e.g. the introduction of new technology that enhances productivity) but deterioration in others (e.g. certain quality aspects). In the same vein, some groups of customers (e.g. large businesses) may have indeed profited from the restructuring of public services while for others (e.g. households) the situation has clearly worsened.

What emerges as a conclusion from the diverse picture of the effects of liberalisation and privatisation is that the provision of public services in Europe should not be left to the free play of market forces. Instead there is a need for proper regulation of the various aspects of the supply process in order to make sure that services are indeed accessible and affordable to all citizens, and that not only some but all quality aspects are improved. Such regulation, however, should not only protect consumers but also public-sector workers, whose working conditions have often deteriorated and whose jobs have, in some cases, become truly precarious. High-quality services not least depend on high-quality jobs.

We understand the following Draft Policy Recommendations from the PIQUE project as a modest contribution by academics based on their research findings to improve the regulatory framework governing the provision of public services in Europe.

²⁵ http://ec.europa.eu/services_general_interest/white_en.htm.

9.2. Market regulation

Liberalisation aims at building competitive market structures, in which many providers compete with each other in an integrated and easily accessible market. The PIQUE research findings show that the evolution towards highly competitive market structures has not or only very partially been achieved in most sectors and countries under investigation. In most of the sectors and countries there is less competition, or the competition is less intense, as could be expected. As a first prerequisite for competition, one might expect an increase in the number of providers in the newly liberalised public-service sectors. However, the findings show that the number of companies has not generally increased and, in some sectors and countries, has even decreased. What is more, even an increase in the number of supplier companies has not necessarily enhanced competition, as market concentration has remained high or has even increased.

Overall, out the 24 cases of public-service sectors in different countries, only four (electricity in Poland and the UK and local public transport in the UK and in Sweden) show strong competition and a few others show some progress towards competitive markets, while in the majority of cases the progress is very limited.

In contrast to building competitive markets, the liberalisation process was more successful in changing ownership structures and in expanding the share of private ownership. While before liberalisation, public ownership was the dominant form of regulation in most countries and sectors, liberalisation and privatisation processes have amplified differences in the regulatory regimes. In very general terms, the focus of regulation has shifted from governing the entire process of service provision to regulating only particular aspects of the service supply chain or to partially controlling outcome. General trends also include the establishment of formally independent regulatory authorities with varying degrees of autonomy and powers to discipline or coordinate market participants, the granting of licences and the signing of contracts. While there is a universal service obligation for the universal services providers in the postal sector, and some similar regulations exist for certain suppliers in some countries, we have found many public-service providers that are not subjected to any comparable public-service commitments. By contrast, the PIQUE survey has shown that European citizens strongly support the notion that public services should be universal.

Notwithstanding the general deficiencies of public-sector markets (e.g. the tendency to create oligopolies or information discrepancies) that require a high level of public control, the same survey has shown that there is no clear link between the degree of competition and private ownership on the one hand and consumers' satisfaction with service provision on the other. Consumers, while generally reluctant to support full privatisation of public-service industries, are as satisfied or dissatisfied in sectors with many competing private providers as in sectors with one dominating public supplier. Hence liberalisation and privatisation, alone does not guarantee accessible, affordable high-quality public services. From our company case-study findings we assume that it is regulation that makes the difference.

9.2.1. Recommendations

- The European Union and its Member States should put more emphasis on monitoring the provision of public services and rigorously and without prejudice evaluate the impacts of liberalisation and privatisation. The knowledge and experience of consumer protection groups and organisations should be used to establish adequate institutions and processes. Both monitoring and evaluation should include independent experts from a variety of academic disciplines because impacts are not only economic. The output of monitoring and evaluation activities should feed in regulation policies and enable policy makers to make informed decisions about the future of public services in Europe.
- The European Union should consider making public-service obligations an overarching principle of its regulation policies, rather than leaving it to the Member States to make sure that citizens have access to affordable high-quality public services. This does not mean that all service providers must be subjected to the same service obligations, but is not enough that only one company per sector and country operates in the public interest. Regulation must make sure that providers operate on similar terms and conditions and that no group of providers is advantaged over others.
- A directive that clarifies the nature and role of public services in Europe would certainly be helpful to develop specific sets of public service obligations and to differentiate public services from private services.
- Leaving the regulation of service provision to the forces of the market bears risks because, among other things, the liberalisation process was only modestly successful with respect to enhancing competition. Instead of focusing on particular aspects of the supply chain, regulation should cover various aspects of service provision in order to make sure that services are easily accessible, affordable and of high quality and to ensure they will remain so for future generations (which requires an adequate amount of investments). Regulation should guarantee equal conditions for all, in terms of access, quality and price.
- The independent regulatory bodies which in several sectors have been established during the liberalisation and privatisation processes must operate on the interest of the various stakeholders involved in the process of delivering public services (including citizens/consumers, workers, companies and public authorities) not only for particular groups. Their work must be fully transparent and there should be a possibility for the various stakeholders to hold them accountable for their decisions.
- Regulatory bodies should not only focus on enabling competition but put more emphasis on the protection of consumers and public sector workers. For that matter regulatory bodies should receive the necessary powers to intervene in the market if necessary.
- In order to broaden the perspective of public service regulation, consumer protection organisations, trade unions, and other stakeholders should have a say

in regulation matters and should be empowered to exert influence on national regulation authorities.

- Given the increasingly European dimension of public sectors markets, cooperation between national regulatory institutions should be advanced. In some sectors the creation of European regulatory bodies should be envisaged.
- If the aim to provide sustained, affordable, accessible and high-quality services to all citizens cannot be achieved under the conditions of changed ownership structures and new forms of market regulation, alternative measures to be taken into consideration should include a return to public ownership, with high levels of accountability and opportunities for citizens' participation as well as performance-oriented incentives for high quality and affordable services.

9.3. Employment

Liberalisation and privatisation have been primarily associated with job reductions rather than employment creation. At the same time, employment within the target sectors has become increasingly part-time, while the number of self-employed and perhaps also temporary workers has increased. The reason for this is that cost cutting has become the main strategy companies adopt in response to the liberalisation of markets. In labour intensive services, this obviously mainly leads to attempts to reduce labour costs by reducing employment levels, even though, in most of the cases, direct layoffs are avoided. Other consequences include lower wages and the spread of precarious employment in some sectors and countries. Most obviously in postal services sectors in Germany and Austria, liberalisation is leading to the emergence of new low-wage sectors that put social standards under pressure and add to the number of working poor. This, in turn, can result in higher costs for public authorities forced to top up wages below the poverty threshold with welfare benefit payments.

As a consequence of restructuring and changes in work organisation, the workforce employed in public-service sectors is becoming increasingly polarised, both in terms of forms of employment and working conditions.

Company restructuring and changing business strategies have gone hand in hand with a reform of human-resource management. Some companies only introduced special HRM departments and policies during the process of liberalisation and privatisation (while before they only had payroll-accounting departments). As a result, training was partly enforced, even though usually not for their entire workforces. In other areas, however, training efforts were cut as a direct consequence of privatisation and the restructuring of work. As a consequence, access to training in liberalised public services is very imbalanced.

9.3.1. Recommendations

- The liberalisation of public services should be regulated in ways to make companies compete mainly on quality while the focus on cost cutting by means of

wage dumping needs to be avoided. Key instruments to achieve this include socially responsible tendering, the linking of tendering to the existence of collective agreements and the introduction of sector minimum wages or other minimum standards. In short: A level playing field in terms of employment conditions should be in place when markets are opened to competition. Employment forms that cannot be subjected to regulation such as self-employment should be avoided.

- There is a need to avoid the erosion of national employment regulation. Therefore, measures should be taken to ensure the quality of employment as envisaged by recent EU directives on postal services and transport.²⁶ Such measures should not only exist on paper but should be implemented and compliance should be assured as part of a general public service monitoring process.
- One of the main aims is to safeguard employment and to avoid understaffing, which, for instance, is widespread in hospitals. Active labour-market measures are needed to support workers who are made redundant through voluntary layoff schemes. Human-resource pools and other adjustment measures should be monitored by independent bodies with regards to effectiveness and human dignity.
- Measures need to be taken to ensure more equal access to training and lifelong learning for different groups of workers in public services.

9.4. Industrial relations

Liberalisation and privatisation have far-reaching consequences for established labour relations. The creation of new markets and the transformation of former public entities into profit-oriented organisations put companies under significant competitive pressure. Since many of the sectors concerned, such as postal services, public transport and hospitals, are labour-intensive, with labour costs making up two thirds of the total production costs, the reduction of labour costs is a core element in improving competitiveness. Labour costs can be reduced either by rationalising production processes (substituting machines for workers) or by lowering wages, extending working hours or using cheaper forms of employment. In order to save labour costs, companies have tried to withdraw from the traditional, more expensive public-sector labour relations and set up new forms of wage setting. As a result, we have seen the emergence of new labour relations. This includes far-reaching changes in collective bargaining, wage levels and employment conditions.

Regarding collective bargaining, liberalisation has usually led to a two-tier system with relatively stable bargaining structures at the level of the incumbent and a

²⁶ Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf; Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:315:0001:0013:EN:PDF>.

rather decentralised and fragmented bargaining structure with low bargaining coverage at the level of the new competitors. Positive exceptions are found in Sweden and Belgium, where labour-relation systems are in place that offer high degrees of coverage and coordination. The two-tier systems correspond with union-density levels that are relatively high within the former public monopolists but often rather low within the new competing companies. So unions often simply do not have the organisational power to push for new collective agreements. Following this, the newly liberalised markets often lack any sector-wide regulation or coordination of labour issues that might limit or even prevent competition on wage costs. This lack of a level playing field regarding social conditions usually means a competitive disadvantage for the incumbent monopolists, who have higher social standards.

Liberalisation and privatisation has not only led to a decentralisation and fragmentation of collective bargaining at the sector level but has also resulted in a growing fragmentation of labour regulation within companies. Whereas under public-sector labour relations, the employees were treated as a relatively homogeneous workforce, within privatised companies there is a growing division between 'old' and 'new' employees and between the core and peripheral workforce. Additional segmentations result from outsourcing practices, which typically increase in the course of liberalisation and privatisation and often mean that the workers affected are covered by new collective agreements, or even no agreement at all.

Overall, because of the fragmentation of labour relations and increasing discrepancies in wages levels and employment conditions, a level playing field is missing. Wage differentials just serve to act as incentives to compete on labour costs and are thus likely to bring about a 'race to the bottom'.

9.4.1. Recommendations:

- In general, the liberalisation process needs to be complemented by policies aiming at social cohesion not only in the area of access to affordable high-quality services but also in the field of employment regulation and collective bargaining.
- Market regulation needs to be complemented by social clauses which ensure acceptable employment conditions in order to make sure liberalisation does not result in a 'race to the bottom' or contradict the Lisbon goal of better jobs. The EU regulation on public transport of 2007, for example, includes provisions, according to which public authorities are free to impose certain social standards in order to 'ensure transparent and comparable terms of competition between operators and to avert the risk of social dumping'.²⁷ Similarly, the EU directive on postal services explicitly stresses that 'social considerations should be taken into due account when preparing the opening up of the postal market.'²⁸ In this

²⁷ Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:315:0001:0013:EN:PDF>, 17.

²⁸ Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008, http://ec.europa.eu/internal_market/post/doc/legislation/2008-06_en.pdf, 16.

context, the introduction of a minimum wage in the postal sector in Germany can be mentioned as a positive example. Moreover, according to the EU directive on public procurement, public authorities are always free to define certain social standards in public tenders.²⁹ To ensure a level playing field in liberalised public services, it seems necessary to turn this option into an obligation for Member States.

- In industrial relations, the main aim should be to avoid low-wage competition and to ensure a level playing field. Measures must be taken to effectively 'avert the risk of social dumping' (EC Reg. 1370/2007). The PIQUE research findings not only confirm that there is such a risk but also show that social dumping is actually taking place in some sectors and countries. The averting of 'social dumping' should be a major objective of the regulatory bodies that have been established in course of the liberalisation and privatisation processes.
- To reach a level playing field and to avoid social dumping, competing companies need to be covered by the same labour-relation regimes, including minimum standards. In this context, regulation needs to cover the whole value chain while collective agreements must be extended to fully cover all companies in a sector.
- Labour regulation in the newly liberalised markets could take the form of statutory minimum standards complemented by autonomous bargaining by the social partners. Both minimum standards and collective bargaining require coordination at a European level.
- There is a need to regularly monitor labour relations and working conditions in public services. Such monitoring should be based on clear aims, and its results should directly inform policy making at European and national levels.
- Contrary to recent rulings by the European Court of Justice, there is a need to ensure that economic freedom does not take priority over social protection.

9.5. Productivity and Service Quality

While a long-term analysis of productivity trends in the sectors studied for the PIQUE project was not conclusive, there is some evidence that public-service companies temporarily respond to liberalisation and privatisation by taking greater recourse to employment cuts in order to boost productivity. This is confirmed by the company case studies, which show that similar outputs are produced by significantly smaller workforces or that, as in the case of some hospitals and local public-transport providers, ever-greater demands are handled by the same number of workers.

However, productivity increases have rarely been an objective in themselves in the restructuring processes following liberalisation and privatisation. Instead, productivity gains are the by-product of a general attempt to cut production costs.

²⁹ Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (30.04.2004), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0018:EN:NOT>

This has two consequences: first, public-service providers in liberalised markets often combine an increase in productivity with the lowering of labour costs by paying lower wages or using atypical forms of employment (often in combination with outsourcing and the creation of independent subsidiaries). Second, many cases showed improvements in quality through productivity measures, such as speeding up processes, using new technology or enhancing responsiveness in customer care.

However, measures to enhance quality have only been observed where they do not conflict with the aim of cutting costs and employment. Quite on the contrary, quality aspects that require additional labour resources have often been compromised as a result of liberalisation and privatisation. Hence, for instance, electricity providers may extend the operating hours of their centrally operated call centres while at the same time they close down the traditional walk-in centres, where customer could talk to agents face-to-face. In postal services, the incumbents have put substantial effort into speeding up the delivery process. At the same time, however, they have significantly reduced the number of post offices and the number of agents working in the post offices, making it more difficult and time-consuming for private customers to use their services. The tension between increasing productivity and improving service quality is particularly apparent in hospitals and local public transport as both sectors are highly labour-intensive services. In some cases a negative impact on quality may become apparent only in the long term. Lower investment in network infrastructures, for instance, may, in the long term, lead to a deterioration of the network quality and therefore jeopardize the security of supply.

The PIQUE survey has shown that consumers, while generally satisfied with the quality of service provision, disagree about various quality aspects, indicating that there is substantial room for improvement. Case-study research, on the other hand, has shown that public-service companies in liberalised markets improve quality very selectively. They also introduce different prices for different groups of consumers. This partly explains the widespread reservation against competition and the simultaneous strong support for choice. Hence, public-service regulations should make sure that consumers have a stronger say in determining the nature and different qualities of public services, while it should not be assumed that competition ensures that consumers get what they expect.

9.5.1. Recommendations

- Regulation is required to oblige companies in liberalised and privatised public-service markets to invest in greater efficiency and higher quality instead of cutting wages and using atypical forms of employment.
- Regulation should also make sure that there is sufficient funding for public-service companies in order to allow them to provide high-quality services.
- In those sectors where there are no equivalent measures in place, an encompassing catalogue of quality criteria should be developed and enforced (as part of a universal service obligation) in order to stop companies from compromising quality for cost-cutting. Such catalogues should apply to all

providers in a public-service sector and specifically emphasise labour-intensive quality aspects. Compliance with the quality criteria listed in the catalogue should be monitored on a continuous base.

- Consumers need to be empowered to monitor and influence the various quality aspects of public services in order to make sure that consumers have a greater say in public-service delivery. Consumer protection organisations have a vast experience in protecting consumer rights. 'Best practices' from consumer protection activities should be used to empower public service users. In addition other forms of participation such as public-service quality advisory boards should be installed in order to make sure that users' voices are already heard in planning processes.
- Regulation should not only focus on actual quality standards. Regulation should ensure sufficiently high levels of investment in order to prevent negative long-term effects on service quality. Where this is not already the case, the ensuring of sufficient levels of investment should become a main task of the regulatory bodies.

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